Not All Differences are the same: The Role of Status and Similarity in Sociocultural Integration in Cross-Border M&As

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Abstract

This study is primarily motivated by the absence of a definite answer to whether and how cultural differences matter in cross-border mergers and acquisitions (M&As), despite the remarkable number of earlier studies aimed at providing a definite answer to the matter. In this conceptual treatise, the aim is to further the current understanding of the antecedents and consequences of sociocultural integration in cross-border M&As. To that end, theoretical and empirical insights gained from social-psychology literature are incorporated into extant models developed in M&A literature. Specifically, the paper argues that we have been observing inconsistencies in earlier empirical research on culture-M&A performance relationship since the interaction of cultural (dis)similarities with relative status characteristics of merging organizations has not been paid due theoretical and empirical attention. As a result, earlier studies have based their findings on either biased or over-aggregated sample sets, which create some kind of an "apples vs. oranges" problem.

1. Introduction

There are few topics in management and organization studies that receive perpetual scholarly interest over time. One such subject matter is mergers and acquisitions (M&As) and key success factors affecting their performance. While research probing into the financial, technological and strategic determinants of M&A performance has long and rich tradition, the stream of studies looking at sociocultural aspects of M&As has recently started to proliferate. Different from earlier approaches, this strand of research concerns itself with “softer” sides of M&As such as human side of post-acquisition integration process (Birkinshaw et al., 2000; Jemison and Sitkin, 1986), role of culture in the creation of intended synergies (Weber et al., 1996), the effect of structural changes and adjustments on the acquired unit employees’ perceptions of and feeling towards the acquirer and the takeover (Mottola et al., 1997; Puranam et al., 2006) and so forth.

Culture has definitely been one of the central themes in the aforementioned string of studies exploring sociocultural dynamics of M&As. The relevance and importance of culture is especially overriding in cross-border M&As, where merging firms come from different national backgrounds and need to deal with additional problems associated with so-called double-layered acculturation process (Barkema et al., 1996.). Consequently, separate and joint effects of corporate and national cultural differences on organizational integration, synergy realization and employee’s attitudes and behavior towards the merger have attracted the attention of M&A scholars during the last decade or so (Larsson and Finkelstein, 1999; Weber et al., 1996). Consonant with the key role of culture in the success of cross-border M&As, concepts like cultural distance (Morosini et al., 1998), cultural compatibility (Very et al., 1997), cultural fit (Weber et al., 1996), management style similarity (Datta, 1991) have been studied to better unravel sociocultural dynamics in post-acquisition integration. However, this ever expanding body of empirical work has yielded equivocal and contradictory results, which leaves the role of cultural differences between the acquirer and acquired unit in post-acquisition integration and performance a still unresolved issue (for a nice review of this literature, see Stahl and Voigt, 2005). In an effort to rejoin the mixed empirical evidence on the role of culture in post-acquisition performance, Stahl and Voigt (2008) have made the case that research needs to be more specific and explicit regarding the level at which culture is analyzed (e.g. national vs.

organizational), measures with which performance is evaluated (accounting vs. financial) and organizations for which the post-acquisition performance is studied (acquirer vs. acquired unit).

Indeed, this study is primarily motivated by the absence of a definite answer to whether and how cultural differences matter in cross-border M&As, despite the remarkable number of studies aimed at providing a definite answer to the matter. Specifically, I contend that, in order to better leverage the ideas it has borrowed from social psychological theories, M&A literature needs some kind of a *theoretical calibration* to decipher the net effect of cultural differences in the sociocultural integration process. On the one hand, students of international business in general and of cross-border M&As in particular have been almost exclusively interested in how differences in corporate and national cultures ignite feelings of "us-versus-them" and, therefore, hinder mutual understanding, trust and cooperation (Bjorkman et al., 2007; Stahl and Voigt, 2008). The idea behind expecting cultural differences to undermine the effectiveness of post-acquisition integration is rooted in theories of social identity and self categorization, which asserts that individuals/groups are more inclined to favor and develop positive attitudes towards others who have similar attributes and characteristics (Byrne et al., 1967).

On the other hand, research in social psychology literature has long ago shown that a group's perceptual valence towards other groups is shaped by not only degree of inter-group similarity but also relative status of the focal group to others (Berger et al., 1972; Jost, 2001). That said, however, it is rather surprising to observe that sources, effects and implications of status differentials between acquirer and acquired units in M&As have been given preciously little attention compared to the central role assigned to culture in M&A literature for the last two decades[1] (see Terry, 2001 and Very et al., 1997 as notable exceptions). Granted that M&As seldom involve merging of equals, in terms of size, competence, image, standing and so forth, it is bit of a simplification to assume that it is the cultural differences *per se* that shape mutual perceptions and the patterns of sociocultural interaction and integration during the initial phases of post-acquisition. This stands to reason that, accounting for the quality of differences between

[1] It is important to point out that several scholars have looked at the importance of relative standing and status of individuals at the target unit (e.g. Krug and Hegarty, 2001; Paruchuri et al., 2006). However, my focus is quite different from these studies in the sense that they look at certain organizational changes (e.g. autonomy removal) to understand the ex post changes in statuses of individuals in M&As, whereas I am interested in ex ante differences in the relative statuses of merging firms and individuals perceptions and attitudes developed thereupon.

merging firms can help reconcile equivocal findings on the role of culture in post- acquisition integration.

Thus, in an effort to fill in the aforementioned research void and to complement the extant literature that looks at the *cultural* side of post-acquisition integration and examines the effects of similarities and differences between merging organizations[2], the current study incorporates a key dynamic of *social* systems (viz. intergroup status differentials) into the discussion. This coalescence of cultural and social factors, I believe and contend, would afford a more accurate and comprehensive understanding of sociocultural dynamics in cross-border M&As. To that end, in Section 2, I will first outline the basic premises of the cultural distance hypothesis as applied in M&A research, along with a condensed critique of the assumptions on which the main arguments of this research stream are built. This will be followed by Section 3, where I will discuss the relevance of status differences and their expected role in sociocultural integration in cross-border M&As. Based on this, in Section 4, I will present six theoretical cases where similarity and status dimensions interact in different combinations, and create different challenges to merging firms. Lastly, concluding remarks and implications for future research will be provided.

2. Cultural Differences and Their Implications

Earlier studies have adopted one of the two approaches while studying the implications of pre-merger similarities/differences between the acquirer and acquired firms. One stream of research, primarily championed by international business and management scholars, has focused on the cultural distance hypothesis that asserts that coordination and communication between organizations/groups tend to get more problematic as the distance between the cultures of these organizations/groups originate increases (Kogut and Singh, 1988). Treating culture mostly at the national level, cultural distance hypothesis is used to understand the performance of cross-border M&As (Chakrabarti et al., 2009; Morosini et al, 1998), the relationship between integration and post-acquisition performance (Slangen, 2006), capability transfer between acquirer and acquired

[2] By merging organizations, I allude to the firms that engage in an M&A. Thus, in case the transaction involves one firm taking over the other (fully or partially) and qualifies more as an acquisition than merger, the term “merging organizations” refer to acquirer and acquired unit.

unit (Bjorkman et al., 2007) and acquired unit employees' attitudes and behavioral responses towards the merger and acquirer (Weber et al., 1996).

The second stream of research adopts insights gained from social psychology literature in order to understand how similarities/differences affect perceptions, attitudes and behavior of individuals and groups of individuals in the context of M&As. Drawing on theories of self-concept and social comparison, earlier studies has shown that focal actors tend to be more attracted to others who have similar characteristics and attributes (Byrne et al., 1967; Griffit, 1966), and that interpersonal attraction is more of a function of perceived similarity than objective similarity of self-other descriptions (Broxton, 1963)[3]. This homophily perspective also accedes to the social identity theory (SIT), which suggests that the members of a given group tend to have stronger in-group homogenization and cohesiveness and develop negative biases towards members of other groups, especially in the wake of an external threat and/or uncertainty (Hogg and Terry, 2000). Accordingly, the attitude of groups towards each other is shaped by the extent to which they perceive other's values and norms to be similar to its own. As an offshoot SIT, self-categorization theory also shows that individuals prefer to associate themselves with similar others (in-group) and positively differentiate themselves from dissimilar others (out-group), in order to enhance self-esteem and positive valence linked to their own social identity (Tajfel, 1982). Along this line, Taylor et al. (1978:779) note that "as a result of categorization process, within-group differences become minimized and between-group differences become exaggerated", which could undermine mutual trust and give rise to increased inter-group conflicts and problems. As a result of this *accentuation effect*, individuals start to develop positive biases towards in-group and negative biases towards out-group members, which in turn affect the way interacting groups conceive of each other's competences, skills and abilities to solve problems. More specifically, people expect similar others (in-group members) to be more competent and skilled to solve a particular problem and are more readily influenced by those sharing similar characteristics (Grush et al., 1975; Oldmeadow et al., 2003).

[3] As a matter of fact, this distinction between objective and subjective bases for defining similarity/dissimilarity is an essential difference between these two streams. As it shall be obvious to an informed reader, studies in the first stream (viz. cultural distance hypothesis) have almost always used standard measures and aggregate indices to understand the extent of differences between merging entities. On the other hand, the use of perceptual measures via subjective assessments of individuals is more prevalent in studies that belong to the second string of studies that follow social psychology tradition.

The rich empirical evidence on similarity-attraction hypothesis and related theoretical frameworks in social psychological literature is indeed effectively utilized by students of organization theory in general and in M&A research in particular. However, this has not resulted in a definite answer to the basic question of whether and how cultural differences matter in the success of cross-border M&As. While majority of studies find negative impact of cultural differences on sociocultural integration outcomes (e.g. Krug and Hegarty, 2001; Larsson and Finkelstein, 1999; Schoenberg, 2004), some others report either positive (e.g. Larsson and Lubatkin, 2001; Weber et al., 1996) or non-significant effects (e.g. Very et al., 1997). Apart from the critique levied by Stah and Voigt (2008) towards the M&A literature in terms of lack of specificity and precision in levels of and proxies for measurement, it is possible to attribute these inconclusive results to two implicit and unqualified assumptions based on which extant research has treated relative cultural characteristics of acquirer and acquired firms. Below, I shall first provide a brief outline of these assumptions before I present my critical remarks correspondingly.

2.1. Similarity, per se, is a Rudimentary Precursor of Attraction between Individuals and Groups

For I have already presented a brief theoretical background of research on cultural differences in M&As, there is no need to repeat the same points once again. Instead, it shall suffice to emphasize that extant literature on sociocultural integration in M&As has been largely based on the raw versions of the arguments implanted by the similarity-attraction paradigm. Thus, cultural differences and dissimilarities have straightforwardly been theorized to have a negative bearing on sociocultural integration due to individuals' innate tendency to develop more positive attitudes and biases towards those who share similar characteristics and demographic attributes (Byrne, 1971).

While conjecturing that similarity would breed intergroup attraction and cooperation, almost all of the studies in M&A literature have developed their hypotheses in a way that as if members of merging organizations always have positive attitude and feeling towards their own pre-acquisition culture (as an exception to this, see Very et al., 1997). Yet, whenever this *ex ante* positive valence linked to pre-acquisition social identity is weak or nonexistent, the central premise of similarity-attraction and cultural distance hypotheses, as they have been applied in cross-border M&A research, becomes rather moot. Indeed, this point is explicitly acknowledged as a scope condition of SIT theory (e.g. Leonard, 1975; Tajfel and Turner, 1986). Specifically, it is shown that the strength of the link between intergroup similarity and attraction is contingent upon the extent to which individuals have strong identification with their group and internalize that group membership *prior to* engaging in social contact with the members of another group (Haslam, 2004)[4]. However, it is quite startling to observe that majority of studies in contemporary cross-border M&A literature either misses or omits this key contingency factor[5].

Applied to intergroup relations in the particular case of M&As, the discussion above implies that whenever members of an acquired unit place their organization in a lower position vis-à-vis an acquirer with higher status or image, they "will attempt, as individuals, to disidentify and gain psychological entry to the other organization. This will increase their support for the merger and their commitment to and identification with the new, merged organization". (Hogg and Terry, 2000:133). In sum, I argue that the effects of cultural differences and similarities between merging firms in M&As are more complex than assumed by previous studies. Instead of naively envisioning any kind of similarity to instigate feelings of attraction and sympathy, and vice versa, research shall explicitly examine whether the factors that render merging firms similar (dissimilar) are seen and evaluated as favorable (unfavorable) by the parties.

2.2. Organizational Similarity is Functionally Equivalent to Organizational Fit/Match

[4] This is simply because of the fundamental contention of SIT that individuals have the inherent proclivity to maintain a favorable self-concept (Tajfel, 1982) and being identified with a similar other would not serve to this purpose as long as the focal actor is similar to that other in terms of a negative self-concept or inferior social position. Based on the same logic, it is plausible to claim that a dissimilar other could be seen as more attractive in so far as s/he is dissimilar because of his/her more favorable social position and/or superior skills and capabilities.

[5] While this observation is true for studies published in management and organization outlets, recent research in social psychology literature has explicitly accounted for the role of pre-merger identification as a key factor that affects individuals' identification with the superordinate post-merger group (Boen et al., 2007; van Leeuwen et al., 2003). However, as a I argued earlier in the paper, students of management and organization theory need to be more up-to-date and theoretically calibrated in an effort to cultivate and leverage the role of sociocultural dynamics in cross-border M&As.

In one of the earlier and highly cited studies on sociocultural dynamics in M&As, Jemison and Sitkin (1986:147) defines cultural fit as “the match between administrative practices, cultural practices, and personal characteristics of the target and parent firms”. Following a similar logic, Datta (1991) first identifies organizational fit as a key determinant of “the ease with which two organizations can be assimilated after an acquisition” (p.281) and then looks at differences in management styles and reward and evaluation systems to understand the role of this “fit” in post-acquisition integration and performance. Similarly, even though they question the plausibility of the assumption that organizational congruence can only be reached by achieving similarity, Weber et al. (1996) also conceptualize national and corporate culture differentials as the indicators of fit in M&As.

These exemplary definitions and conceptualizations of cultural fit, along with their antecedents and close correlates, are erroneous and misleading for several reasons. First, there is a conceptual difference between fit/complementarity and similarity/cultural distance. Even if there are theoretical and practical reasons to believe that similarity breeds mutual understanding, trust and cooperation, as argued elsewhere, an organization can perceive a dissimilar national and/or corporate culture as more attractive than its existing set of norms and values. Ergo, merging with and/or being acquired by another organization having such attractive attributes may provide the focal firm an opportunity to dissociate itself from its own culture and start to associate itself with a more favorable social identity. Second, organizational match and fit are vaguely defined and imperfectly operationalized concepts. It is quite facile to equate the concept of cultural misfit with cultural differences as well as to assume that the differences would straightaway create misfit. The nuance between fit and similarity might be better understood through the metaphor of jigsaw puzzle, where one needs to find and put together different in lieu of similar pieces together in order to solve the puzzle and come up with a coherent picture. This argument can also be corroborated by the findings of research on relational demography in workplace, which has shown that individuals can be attracted towards not only similar but also dissimilar others, depending on their beliefs regarding status hierarchies in the social system within which they interact (Chattopadhyay, 2003).

3. Status Differences and Their Implications

Up until this point, I have tried to contain my critical remarks within the scope of theoretical frameworks adopted in studies on the presumed effects cultural differences on sociocultural integration in M&As. However, the main purpose of this study is not to cast aspersions on studies looking at the implications of cultural (dis)similarities for post-acquisition integration. Instead, I aim to complement our current understanding of the sociocultural dynamics in M&As by extending the discussion into other dimensions than culture, namely the effects of relative status positions of the merging firms. Although the image and status effects in M&As have been incorporated by few scholars before (e.g. Terry, 2001; Terry and O'Brien, 2001; Very et al., 1997), these models and frameworks either are rather weak in terms of their theoretical bases or impute a binary difference between individuals (in-group vs. out-group), which makes it difficult to detect the nuances in between these opposite ends.

For the purposes of this study, I will base my arguments primarily on two well-established theories in social psychology literature. The first one is called *Status Characteristics Theory* (SCT), which is developed to explain inequalities among group members' participation to collective task, influence over the final decision and evaluation by the other members of the group (Berger et al., 1972). According to SCT, social actors (group members) are initially distinguished in terms of socially constructed attributes that are called "status characteristics". There are two types of status characteristics: specific and diffuse. Specific status characteristics give direct clues about an actor's level of knowledge, skill or competence pertinent to particular tasks or problems, such as creative ability or technical capabilities. Diffuse status characteristics, by comparison, are socially and culturally associated with some specific skills and imply general expectations for competence that are less limited in range. For example, in some universities, Chinese students are expected to be more competent in mathematical abilities or in some countries women are expected to be more skillful in cooking than men. Based on both specific and diffuse characteristics, social actors develop expectations for themselves and for others in the group and the strength of these expectation depends on the extent to which status characteristics are salient (viz. known to social actors and be perceived as relevant for the specific task at hand) and perceived as relevant for the task at hand. The key principle of SCT is that those who are expected to be more competent at a predefined task due to their higher status (1) take more active role in social interaction patterns, (2) are evaluated more positively for their performance, (3) exercise higher control and influence over group decisions and (4) achieve legitimate leadership position (Berger et al., 1977; Berger et al., 1992).

In the specific context of cross-border M&As, myriad of factors can function as potential source of perceived status differences between the acquirers and acquired units. At national level, relative degree of economic development, stereotypes and beliefs emerging out of country-of-origin effects and historical /contemporary economic (e.g. mutual trade relationships), social (e.g. temporary and permanent movement of individuals across the countries) and political (e.g. scale and scope of bilateral treaties) relationships between acquirer's and acquired unit's countries can affect how members of both organizations perceive each other and form their expectations accordingly. At organizational level, established image (e.g. large but lethargic and bureaucratic vs. small but dynamic and innovative) and past achievements (e.g. awards and acknowledgements by third parties and business associations) of merging organizations can be used by organizational members as input variables while they try to get an idea about and make sense of each other's characteristics and capabilities. Moreover, joint projects and strategic alliances (in the case of horizontal M&As) and/or buyer-supplier relationships (in the case of vertical M&As) prior to the acquisition can also play a key role in parties' perceptions and expectations of other's skills, merits and prospective role behaviors.

The second theory I use to understand the implications of status differences in M&As is *System Justification Theory* (SJT). The starting motivation of SJT is to reconcile social actors' innate tendencies to favor in-group members in order to enhance their individual and collective self-esteem with their motives to make sense of and legitimize structural forms social inequality and uneven distribution of power and prestige in social systems[6]. One of the most overarching consequences of social inequalities, according to Major (1994), is that "they can alter what people feel they deserve, or are entitled to receive, from their social relationships. The

[6] Jost (2001:95) specifies the fundamental theoretical assumption of SJT as "all other things being equal, people tend to use ideas about groups and individuals to justify the way things are, so that existing social arrangements are perceived as fair and legitimate, perhaps even natural and inevitable".

disadvantaged often come to believe they deserve their lesser outcomes, whereas the overprivileged often come to believe that they are entitled to their position of relative advantage" (p.294).

Accumulated empirical evidence on SJT adds up to the conclusion that (1) individuals socially construct stereotypes as a way of rationalizing and justifying structural inequalities in social roles and prerogatives (Eagly and Steffen, 1984), (2) members of groups with low-status in social standing display *out-group favoritism* by accepting and internalizing unfavorable characteristics and stereotypes of their own group and buying into favorable stereotypes of successful and high-status out-groups (Jost et al., 2004; Sachdev and Bourhis, 1985; Schwarzwald et al., 2006), (3) people show favorable biases for options that support status quo and existing institutions even if there are reasons to suspect their fairness and legitimacy (Tyler, 2006), (4) for members of high-status groups, enhancing self-esteem and self-concept by developing in-group bias is consistent with accepting and justifying the inequalities of the social order within which they operate, whereas this is not the case for the members of low-status groups, and in-group bias and system justification conflict with each other (Jost and Elsbach, 2001).

The SJT further suggests that out-group favoritism can be used as a precursor to disidentify from current group membership and remove membership to the positively valued out-group (c.f. Tajfel and Turner, 1986). As an alternative to pursuing *individual mobility,* individuals in low-status groups may also utilize *social creativity* strategy (Tajfel and Turner, 1979). This can be done by exhibiting out-group favoritism on dimensions that are highly relevant to status differences, yet they may display in-group favoritism on irrelevant dimensions as a way to make up for an otherwise unfavorable social identity (van Knippenberg, 1978). Research has shown that the choice between individual mobility and social creativity depends on the extent to which boundaries between groups are permeable and transitory (Ellemers et al., 1988; Terry, 2001).

Taken together, SCT and SJT provide an explanation to how status differences between individuals and groups of individuals emerge, and how those differences keep on influencing the patterns of social interactions and perceptions. Applied to the context of cross-border M&As, explicit consideration of the differences in relative statuses sets forth a *vertical dimension* while discussing post-acquisition relationships between acquirer and acquired units. Based on this, I shall make the case that *not all differences produce the same effect* in sociocultural integration in M&As, which will be further elaborated in the Section 4. Sharing the same intuition with Very et al. (1997), I claim that a culturally different organization (e.g. acquirer), and identity associated with it and ideas developed therein, may be seen and perceived as legitimate and attractive as long as it has a higher status than the focal organization (e.g. the acquired unit). Thus, the acquired firm may find it an appealing (unappealing) idea to get associated with the acquirer that has attained a higher (lower) status since this would create an opportunity (threat) for the former to enhance (diminish) its self-concept and image by starting to get affiliated with the latter.

4. Dual Roles of Similarity and Status

Using culture as a dimension to understand the extent to which merging firms are similar/different is particularly useful to decipher the dynamics of sociocultural integration in M&As. However, granted that culture can provide a *nominal* basis for comparing two entities, we can only position the merging organizations along horizontal dimension by comparing their cultural profiles. On the other hand, as I noted in the previous section, status affords an *ordinal* basis for comparison by making it possible to rank organizations based on their perceptions of their own and others' status characteristics. Put together, culture and status makes it possible to position merging firms in a two-dimensional space. For illustrative purposes, I develop 6 possible cases of M&As based on different combinations of horizontal and vertical location of the merging firms (see Figure 1).

---- Insert Figure 1 about here ----

Before proceeding further, I shall specify the working assumptions behind and delimitations of the conjectures presented herein below. First of all, in all six cases I present, both intergroup similarities and relative status positions refer to social actors' *perceptions* and *subjective understanding* of each other in lieu of de facto disparities and objective skills and capabilities. Therefore, I exclude potential implications of ex ante differences in national and organizational contexts, which can undermine the effectiveness of post-acquisition integration by hindering the convergence of business models and/or organizational structures. Yet, given that my focus is more on the sociocultural than operational integration and that subjective interpretations between individuals/groups of individuals are more closely related to objective factors as far as inter-group attraction and frequency of interaction is concerned (c.f. Rogers and Bhowmik, 1970), this is a pertinent assumption and delimitation. Second, I assume that social actors have (imperfect) access to information about each other's cultural profile and status characteristics and they use this information as an input variable[7]. As a matter of fact, this assumption is needed since my model is particularly focused on the *initial stages* of the post-acquisition process when members of merging organizations form their initial impressions and thoughts of each other (which may or may not sustain and create some type of path dependency) instead of later phases where the role of power and politics becomes more salient. Lastly, I am interested in the effects of similarity and status on parties' *willingness* to interact with and learn from each other, and leave out implications for their *ability* to do so (c.f. Minbaeva et al., 2003).

The cases (I) and (II) represent hypothetical situations where status and cultural differences between merging firms are the same, respectively. Obviously, it is a legitimate point to cast doubt on the orthogonal depiction of culture and status. After all, SCT suggests that diffuse status characteristics are important when individuals form their expectations of each other and these diffuse characteristics (e.g. gender, nationality, age, and race) can also be used to determine cultural similarities/differences between social actors. However, earlier studies with experimental designs addresses this potential critique by showing that the roles of status and similarity are independent and have separate and distinct effects on patterns of interaction and social influence among individuals (Kalkhoff and Barnum, 2000; Oldmeadow et al., 2003).

As a matter of fact, the discussion becomes more interesting once we start to vary both cultural differences and relative statuses of merging firms. It is interesting to note that cultural distance (D) in cases (I), (III) and (IV) are all the same on the horizontal dimension. However, as a result of incorporating the effects of status differences, we start to observe different forms of routes that

[7] In this regard, I partially base my argumentation on the concept of signaling in economics, where actors communicate some meaningful (yet not necessarily honest) information about themselves in order to facilitate future interaction, which is prone to contractual hazards and uncertainty.

the merging firms have to follow in order to achieve acculturation[8] and sociocultural integration. Indeed, the difference between (III) and (IV) is also underscored by Shenkar (2001) in his nice critique of extant conceptualization and measurement of cultural distance. Specifically, he argues that standard conceptualizations of cultural distance suffer from the "illusion of symmetry" and notes that "distance, by definition, is symmetric: The distance from point A to point B is identical to the distance from point B to point A [...] It suggests an identical role for the home and host cultures [...] However, there are no studies showing symmetry between the two nor is there a reason to assume one" (Shenkar, 2001:523). While this criticism is based on logic and introspection, in this study I aim to incorporate a stronger theoretical basis for Shenkar's claim by grounding it on the basic tenets of SCT and SJT. Following this, I argue that the effects of cultural (both national and organizational) differences in cross-border M&As are *asymmetric* and *directionally inequivalen*t. This is because, as long as there are status related differences between the parties, the way members of Organization A develop their perceptions of and attitudes towards Organization B will not necessarily be the mirror image of the way members of Organization B develop their perceptions of and attitudes towards Organization A. Previous studies endorse this claim by showing that there are asymmetrical behavioral effects of dissimilarity (e.g. trust and favorable reactions towards dissimilar others) across demographic groups (Chattopadhyay, 1999; Tsui et al., 1992). Asymmetric findings on country-of-origin effects are also documented in international marketing domain (Gurhan-Canli and Maheswaran, 2000).

With the cases (V) and (VI), I tried to take the discussion one step further by varying both the length and slope of the hypothetical lines linking merging firms. While (V) assigns small-scale cultural dissimilarities between the merging firms, the status differences are so substantial that Organization A has to follow a steep path to come closer to Organization B in terms of status dimensions. The case of (VI), on the other hand, depicts a narrower gap in terms of status but cultural differences are higher compared to (V). Needless to say, it is an open empirical question

[8] For the purposes of this study, I adopt the classic definition of acculturation as "those phenomena which result when groups of individuals having different cultures come into continuous first-hand contact, with subsequent changes in the original culture patterns of either or both groups" (Redfield as cited in Sam, 2006:11). It is important to emphasize that this definition (a) implies cultural changes for both groups coming into contact with each other, (b) entails the possibility of one party's rejection of or resistance to the cultural elements imposed by the other.

regarding which of these two cases would require more time and effort required to close the gap between Organization A and Organization B and achieve sociocultural integration.

In the introduction section, I referred to the inconsistent and mixed empirical evidence on the role of culture in cross-border M&A success as the primary motivation of this paper. Herein, I argue that the lack of consensus on the matter could primarily be due to the role of relative status differences between the merging organizations, which has not been explicitly accounted for in the models and empirical designs of studies in extant cross-border M&A literature. As I theorized and tried to show graphically in this section, if we only look at the cultural differences we will end up with the same level of distance (D) on the horizontal dimension. However, the time and resources required to manage the distance (D), and close the corresponding gap between the merging organizations, are likely to vary depending on the extent to which these organizations have different status characteristics. By taking into consideration the dual roles of similarity and status, we can get a better grasp of the unexplained and uncomforting ambiguity over the role of cultural differences in M&A performance. Specifically, I assert that:

(1) Some of the earlier studies have found that cultural differences have *positive* effect on cross-border M&A performance and socio-cultural integration outcomes (Barkema et al., 1999; Harris and Ravenscraft, 1991; Krishnan et al., 1997; Morosini et l., 1998; Weber et al., 1996), since majority of the M&A deals in their sample could be represented by the cases *(IV)* or *(VI)* where the acquirer (A) has a higher status position compared to the acquired unit (B). Therefore, the acquirer is able to realize financial and non-financial synergies without facing with significant resistance and hostility from the acquired unit, since the latter would either display out-group favoritism or try to obtain psychological entry to the latter organization so as to benefit from being integrated and identified with a new owner with higher status characteristics than its own.

(2) Some of the earlier studies have found that cultural differences have *negative* effect on cross-border M&A performance and socio-cultural integration outcomes (Datta, 1991; Krug and Hegarty, 2001; Larsson and Finkelstein, 1999), since most of the M&A deals in those studies might be epitomized by the cases *(III)* or *(V)*, in which acquirer's (A) lower status position compared to the acquired unit (B) makes it more difficult to extract

potential benefits and synergies out of the deal. In other words, it is more likely to observe higher employee resistance, out-group hostility and top-management turnover in organizational units that are acquired by firms that are perceived to have substandard status characteristics than their own.

(3) Some of the earlier studies have found that cultural differences have *no significant* effect on cross-border M&A performance and socio-cultural integration outcomes (Anand et al., 2005; Larsson and Lubatkin, 2001; Very et al., 1996), since these studies might have aggregated different cases represented in Figure 1 in their sample frames. Thus, these studies have failed to find a meaningful role of culture in M&A success, since *over-aggregation problem* in their sampling frame might have lead potential benefits of being an acquirer with higher status (as in cases (IV) and (VI)) to be outweighed and cancelled out by the potential risks of having lower status than the target (as in cases (III) and (V)).

All in all, I argue that we have been observing inconsistencies in earlier empirical research on culture-M&A performance relationship since the *interaction* of cultural (dis)similarities with relative status characteristics of merging organizations has not been paid due theoretical and empirical attention. As a result, earlier studies have based their findings on either biased or over-aggregated sample sets, which create some kind of an “apples vs. oranges” problem.

5. Conclusion

Nature and raison d’être of firms still remain as a perennially discussed issue in both IB studies and in management and economics literature at large. Kogut and Zander (1992) identify firms’ unique function vis-à-vis the markets by making reference to their superior ability to create, integrate and transfer different kinds of knowledge internally. While fulfilling that function, firms are shown to rely heavily on shared identity, which inaugurates a normative territory on which employees coordinate their behavior and decision-making based on mutual trust, common rules and guiding principles (Kogut and Zander, 1996). Following this non-economic conceptualization of firms, this paper is aimed at understanding the contingency factors that affect whether and how organizations that engage in an M&A become a “firm”. More specifically, in this theoretical treatise, my aim is to further the current understanding of the antecedents and consequences of sociocultural integration in M&As. To that end, I tried complement SIT perspective, which has been dominantly used as the theoretical framework to explain sociocultural integration in cross border M&As, by introducing the role of status in relationships and sociocultural integration patterns among merging firms.

As I showed in Section 3, status differences and the way they affect individuals' attitudes and behavior in inter-group relations is a relevant topic that has not been effectively utilized and systematically researched by students of IB. The theoretical cases presented in Section 4, which I developed by combining the conjunctures of SIT with SCT and SJT, merit further scrutiny and empirical analysis. For example, future empirical research can look at when and how different types of trust (e.g. affective vs. cognitive, c.f. Kramer, 1999) can be developed in cross-border M&As, depending on the level of similarity *and* status differences between the merging organizations.

Incorporating status-based theories of social psychology can also be useful to challenge the widely-held belief that sociocultural integration is a desired end-result in M&As, which by and large reflects itself with the eradication of so-called "us versus them" thinking and the implantation of a shared identity between acquirer and acquired unit . While it is clear that removing the identity related boundaries between merging firms is a necessary step to leverage potential synergies in M&As, basic tenets of SJT imply that it is likely that members of in high-status organizations may not find it a particularly alluring outcome that they start to share the same identity with another group that they find of lower status. In other words, accomplishing sociocultural integration by creating a common identity shall not be assumed to create positive attitudes between the acquirer and acquired unit towards each other, and toward the acquisition itself. In other words, it is possible to observe some "winners" and some "losers" as a result of sociocultural integration in cross-border M&As, so long as there are ex ante status differences between the parties. Of course, all these contentions are theoretical in nature, which require and invite empirical examination.

When it comes to capability transfer, earlier research in IB literature has shown that interpersonal (Makela et al., 2007) and inter-organizational (Lane and Lubatkin, 1998) similarity plays a facilitating role in transferring knowledge between different units of an MNC. However, adding the role of status into the equation, it is possible come up with different patterns of learning and capability transfer. Specifically, cultural and demographic similarities can render it easier to transfer knowledge and capabilities in case the source unit/individual needs to have *safety credibility* in the eyes of the recipient (Rogers and Bhowmik, 1970). On the other hand, in order to transfer certain types of knowledge, it is necessary to establish a qualification credibility, which is inversely related to interpersonal similarity as shown by Rogers and Bhowmik (1970). In such cases, *qualification credibility* becomes the key success factor, which is largely determined by status credentials and abilities of the source. This stands to reason that inter-organizational similarity attains a chief role when it comes to *exploitation* type of learning whereas relative status positions of source and recipient units/individuals play a key role in the case of *exploration* type of learning. Then again, these propositions impose noting more than open empirical questions.

In sum, the general conclusion of this study is that *not all differences between merging firms are the same* and *produce the same effects*, as far as sociocultural integration in M&As is concerned. It is my contention that limiting the theoretical perspectives and empirical studies with singular dimension of culture could be underlying reason of mixed empirical results found in earlier research. By combining the (horizontal) dimension of culture with the (vertical) dimension of status, future research will hopefully reconcile those inconsistencies and afford a clear picture for theory and practice.

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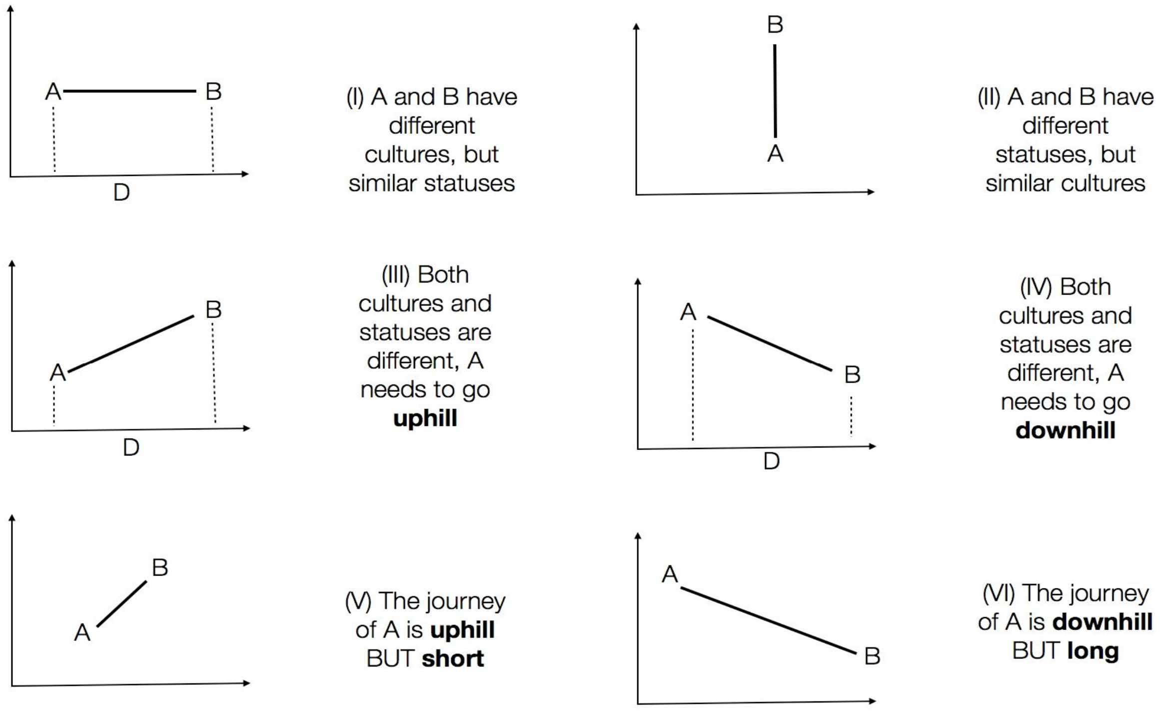

Figure 1: Different M&A Cases with Different Combinations of Cultural Similarities and Status Differentials.