7 A Learning Perspective on Sociocultural Integration in Cross-National Mergers

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Introduction

What do managers learn from their previous experience of integrating merging organizations? How does this learning influence the implementation and success of subsequent mergers? There is today wide agreement that the ability to manage the integration of workforces and cultures is an important factor in the success of mergers and acquisitions (M&A). To the extent that sociocultural integration processes are unsuccessful, they may lead to loss of key personnel, decrease in employee productivity and reduced job satisfaction, communication breakdowns, and resistance to change (see, for example, Buono and Bowditch, 1989; Cartwright and Cooper, 1993b). Cross-national mergers are particularly challenging as "national" identification as well as delineation from other nationalities influence how employees make sense of the integration process following the merger decision (Calori, Lubatkin, and Very, 1994; Gertsen, Søderberg, and Torp, 1998; Olie, 1994). Ultimately, lack of sociocultural integration may result in failures to reach the intended synergy benefits and growth potential of the merger. It is therefore of crucial importance for firms, and top decision makers within them, to develop their integration capabilities.

In this chapter, we present a learning perspective on sociocultural integration. Key actors in firms with merger experience learn from their earlier integration efforts, and the lessons learnt are likely to guide integration decisions in subsequent mergers. To the extent that key actors in firms adequately learn from previous merger processes, experience may offer the potential for firms to improve their performance in subsequent mergers. However, research has failed to establish a direct positive relationship between merger experience and performance. Although it has been demonstrated that previous experience tends to influence subsequent M&A (Haleblian and Finkelstein, 1999; Hayward, 2002; Finkelstein and Haleblian, 2002), it has also been shown that experience does not necessarily lead to improvements in performance. For instance, the insights gained from one merger may be applied in a subsequent merger that appears superficially similar but where the differences are big enough to make the lessons from the first merger wrong or even dangerous (Finkelstein and Haleblian, 2002). Surprisingly, there is a lack of research on perceptions of the actual learning that takes place in firms as they increase their experience of M&A (cf. Greenberg, Lane, and Bahde, •••; Leroy and Ramanantsoa, 1997; Zollo and Singh, 2001).

A learning perspective on sociocultural integration offers several potential contributions to the literature on M&A. First, a learning perspective may enhance our understanding of why decision makers in firms undertake specific approaches to sociocultural integration. Second, an augmented understanding of the key features of the process of learning in the M&A context may help managers to better understand these processes in their own organization, thereby contributing to improved sociocultural integration in the future. Third, a learning perspective may provide insights into when learning from one merger context can be transferred to another with positive performance effects, and when the use of previous experiences have negative impacts on the success of a subsequent merger.

In this chapter, we focus on learning around sociocultural integration when firms move from one cross-border merger or acquisition to another. We concentrate on the problems and challenges related to making sense and use of previous experiences when dealing with sociocultural integration. Our insights are based on an in-depth analysis of the making of the financial services group Nordea, which has been built through a series of domestic and cross-border M&A in the Nordic and Baltic region in Europe. The core of Nordea now comprises leading financial institutions in Denmark, Finland, Norway, and Sweden. We focus the analysis on four ideas concerning sociocultural integration that seems to have played a major role in the merger processes: (1) the development of shared corporate visions to create top management commitment, (2) the idea of "virtual headquarters" as a sign of balance of power, (3) the need to outline a corporate language policy, and (4) the need for cultural awareness programs. We analyze top managers' recollections of learning experiences in the series of mergers. On the basis of our analysis, we draw attention to three points: learning is inherently context-specific, it often involves ambiguity, and the significance attributed to specific learning experiences depends on the dominant coalition of actors. We end this chapter by offering suggestions on how decision makers in firms can avoid becoming trapped in their learning from the past and instead foster effective exploitation of their previous experiences in cross-national M&A.

Sociocultural Integration

Much of the research on sociocultural integration in M&A has started from the assumption that *cultural differences* are major causes of potential integration problems (for a review of this literature, see Vaara, 1999). Both the distance between the organizational cultures (for example, Chatterjee et al., 1992; Datta, 1991) and the home countries of the two organizations (for example, Lubatkin et al., 1998; Olie, 1994) have been pointed to as potentially problematic in merger implementation.

However, there are several problems attached with the focus on cultural differences. First, cultural differences are not stable objects of analysis but rather something that tend to be constructed in merger processes. Cultural identification is highly context-specific, and the sociocultural integration among the merging organizations is the outcome of idiosyncratic processes of social interaction. These processes are often characterized by the construction of "us" versus "them" settings, where the perceived cultural differences depend, among other things, on the relationship between the merger parties and their representatives (for example, Vaara, Tienari, and Säntti, 2003). Second, most organizational scholars today agree that national and organizational cultures tend not to be monolithic. Although there may be some cultural consistency, organizations are typically characterized by cultural differentiation and ambiguity (see, for example, Martin, 1992). In merger settings involving complex organizations, one can thus expect to see multiple, complex, and ambiguous cultures and views on cultural differences. Third, there is growing agreement that it is not the organizational or national cultural differences per se than rather cultural "fit" or "misfit" that determines the dynamics of sociocultural integration. Consequently, the extent to which the specific cultures in question are compatible is a key issue (see, for example, Cartwright and Cooper, 1993a). Others have gone further and argued that it is not either this fit but how sociocultural issues are dealt with or managed after the merger that matters (for example, Calori, Lubatkin, and Very, 1994). Fourth, some researchers have even questioned the very rationale of associating cultural differences with problems or failures. Specific studies have, in fact, indicated that cultural differences can in specific circumstances also be a source of value (for example, Morosini, Shane, and Singh, 1998).

Organizational researchers have therefore focused increasingly on the processes of sociocultural integration. Inspired by anthropological models, researchers have examined different modes of acculturation (Elsass and Veiga, 1994; Nahavandi and Malekzedeh, 1988). These studies have, among other things, shown how the dynamics of acculturation depend greatly on how the merger parties and their representatives view each other and which kind of relationship is built between them over time. Other researchers have focused more on how organizational members *make sense of and socially construct* the merger process (Gertsen, Søderberg, and Torp, 1998; Kleppestø, 1993; Vaara, 2002; Vaara, Tienari, and Säntti, 2003). These studies have in particular illustrated how complex and ambiguous culture creation and identity-building are and consequently how difficult it is to manage these processes. Although these studies have significantly contributed to our understanding of the complexities of sociocultural integration processes, little in-depth research has been carried out on *why* organizational decision makers in specific situations tend to use certain approaches to sociocultural integration. We propose that a learning perspective can fruitfully be used to augment our understanding of this issue.

Learning in Organizations

Many learning theorists characterize organizations as systems that adapt to interpretations of the relationship between previous action and their effects (Cyert and March, 1963; Levitt and March, 1988). According to this organizational learning perspective, adopted in this chapter, organization members engage in interpretations of the success/failure of actions, routines, procedures, and strategies. If central organization members—sometimes referred to as the "dominant coalition" (Duncan and Weiss, 1979)—interpret a certain historical action as having been successful, these insights are coded in cognitive structures that mirror the causal relationship that has been inferred. Hence, interpretations shared among top managers of what has constituted successful versus unsuccessful actions are likely to influence decision making and to be translated into strategies, processes, procedures, and structures (Crossan, Lane, and White, 1999; Levitt and March, 1988). In this study, we analyze decisions made by top management on how to integrate the merging organizations; hence, in the empirical part of the chapter we focus on examples of the role of individual and collective learning in integration decision making.

Although individuals, groups, and organizations learn from experience, researchers have identified a number of factors influencing the inferences that are drawn from history. First, a range of *socio-psychological factors* influence the inferences that managers make based on history. Managers need to perceive and present the outcome of previous decisions as successful to both themselves and others so as to protect their self-esteem and their own identity as successful professionals (Staw, McKechnie, and Puffer, 1983). The ambiguity about cause–effect relationships that often exist may mean that managers misread information and engage in superstitious learning

(March and Olsen, 1976). It has also been shown that managers often attribute good organizational performance to their own actions, further strengthening existing routines and strategies (Fiske and Taylor, 1991). In fact, within the context of M&A it has been shown that managers often reframe and reinterpret as successes what had previously been considered failures, for example by shifting measures of success from a focus on profitability or synergy to one of sociocultural integration of the two units (Vaara, 2002).

Second, learning depends on the *focus of attention* of the learners (Cyert and March, 1963; Levinthal and March, 1993). Hence, depending on the kind of issues that the top management team focuses on in the organization and its environment, different learning outcomes result. For example, if top managers focus on the competitive environment of the firm, the management group is more likely to develop insightful interpretations of the effects of a merger on the competitive situation of the merged firm than to consider the effects of the sociocultural integration process on organizational performance. In this case, managers are unlikely to critically examine whether or not previous experience from sociocultural integration also might work under other conditions.

Third, the question of *who learns* is central to the learning perspective. Not only do different groups in the firm have access to different information and focus on different issues and, therefore, tend to learn about different things, they may also evaluate the outcome of a certain action differently and have different interpretations of the factors that led to the outcome (Huber, 1991). For example, new managers are more likely to define previous outcomes more negatively than are their predecessors (Hedberg, 1981). Further, the learning that takes place within the management group of one organizational unit does not necessarily impact the activities of others (Levitt and March, 1988).

Fourth, the impact of learning on organizational decision is dependent on the *power* of the individuals, units, and coalitions to implement what has been learnt (Huber, 1991). The vertical and hierarchical structure of the organization, and change within it, influences the implementation of the learning experience (Levitt and March, 1988). Organizational actors who pursue their own interests are also likely to be selective in terms of the learning points that they share with and adopt from others in the organization.

Finally, organizational learning can be said to depend on the *memory* of the organization (Levitt and March, 1988; Walsh and Ungson, 1991). Learning at a certain point in time may not be available for retrieval at a later stage. Although the inferences that managers draw from history may be codified and recorded in written manuals, procedures, and reports, these may not be widely known. Consequently, they are not sought and retrieved by organization members at later moments. Retrieving the outcome of learning tends to be even less likely when the "organizational memory" mainly resides with the memory of individuals. Reorganizations and turnover of personnel may further aggravate the availability of historical insights about what "works" and what does not.

Previous research taking a learning perspective on M&A has mostly examined the statistical relationship between (quantitative measures of) the organization's merger or acquisition experience and the performance of the focal merger or acquisition (Haleblian and Finkelstein, 1999; Hayward, 2002; Finkelstein and Haleblian, 2002). These studies have shown that experience does not necessarily lead to improvements in performance, but in-depth analyses of how firms learn from their acquisition experiences are rare (Leroy and Ramanantsoa, 1997). Of the many areas of postmerger or postacquisition integration, sociocultural integration represents a particularly cumbersome challenge (Shrivastava, 1986). Even the conceptualization of what constitutes sociocultural integration is difficult, and outlining key managerial activities and tasks in this context is not at all straightforward. Furthermore, agreeing upon what are the most appropriate and effective integration strategies is likely to be difficult in organizations where the actors, because of their different backgrounds, positions, roles, and identities, are likely to look at issues in different ways. This means that learning concerning sociocultural integration is likely to involve complicated social processes. To outline some of the characteristics and outcomes of these processes, we now turn to our empirical illustration.

The Nordea Case

Deregulation and radical development of information technology have trigged a wave of M&A in the financial services sector (Canals, 1997). A basic rationale for M&A in this sector lies in the quest for increasing size and the pursuit of synergy benefits through extensive integration of operations. Also, it seems that an important element of recent M&A is to profile the merged company as an attractive partner for future mergers. Increasing sensitivity for shareholder value is an overarching rationale in these actions. All these features are prominent in our case.

Our empirical analysis focuses on the series of mergers that led to the creation of a leading Nordic financial services group called Nordea. In October 1997, Finnish Merita and Swedish Nordbanken joined forces in an unprecedented cross-border merger in the European retail banking sector. Already at this stage, the representatives of the new Merita–Nordbanken group announced their intention to proceed with M&A in the other Nordic countries. In March 2000, it was announced that Merita–Nordbanken was to merge with the Danish Unidanmark, a group created just one year before

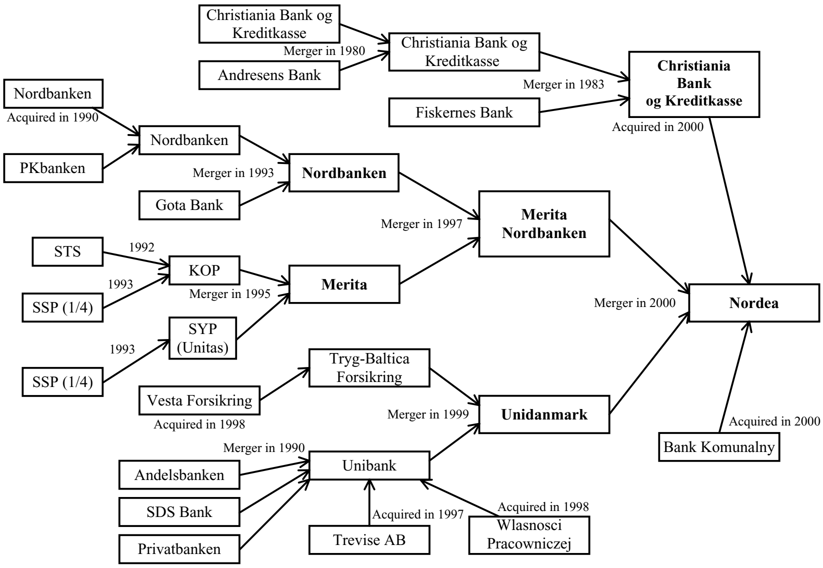

FIGURE **7.1** **Mergers and Acquisitions in the Making of Nordea**

by a merger of leading Danish banking and insurance groups. Already before this step, in September 1999, Merita–Nordbanken had made a public offer for the state-owned Norwegian Christiania Bank og Kreditkasse (CBK), which after long negotiations, it was eventually able to acquire in October 2000. The name Nordea was launched at the end of 2000. Figure 7.1 summarizes key M&A leading to the creation of Nordea. It is important to note that the cross-border mergers were preceded by a series of domestic M&A.

The Nordea case is a particularly fruitful setting for analyzing organizational learning as the organization has been created through a series of cross-border M&A within a relatively short time period, allowing us to examine the emerging learning and its impact on subsequent actions. Our empirical material was gathered in a research project involving a group of scholars from Denmark, Finland, Norway, and Sweden.[1] A total of fifty-five interviews were conducted among the top executives in the company in the latter part of 2001 and the beginning of 2002. The idea was to employ a "storytelling" approach with the use of a semistructured interview guide. Most interviews were carried out by a researcher representing the same nationality as the interviewee, using a shared native tongue. The insights presented in this chapter are also based on a detailed study of one of Nordea's business units, carried out longitudinally over a period of eighteen months. We have also drawn on data that we over a period of more than five years have collected in our studies of individual M&A in the making of Nordea (for example, Risberg, Tienari, and Vaara, 2003; Tienari, 2000; Tienari, Vaara, and Björkman, 2003; Vaara, Tienari, and Säntti, 2003).

In the analysis presented below, we focus especially on the experiences in the merger between Merita (Finland) and Nordbanken (Sweden), announced in October 1997, and their perceived impact on subsequent decisions in the merger between MeritaNordbanken (MNB) and Unidanmark (Denmark), announced in March 2000. We pinpoint four ideas that were clearly articulated in both mergers, and which provide us with different kinds of examples of the complexities surrounding organizational learning in M&A. We have attempted to reconstruct organizational decision-making processes and examine the role of learning from previous experiences in these processes. It is important to note that we are dealing with retrospective constructions by key organizational actors.

Learning on Sociocultural Integration in the Making of Nordea

In the following, we present our findings regarding learning in relation to four issues of sociocultural integration: (1) working on shared corporate visions to create commitment, (2) the idea of virtual headquarters as a sign of balance of power, (3) the need to outline a corporate language policy, and (4) the need for cultural awareness programs.

Shared Corporate Vision

One of the challenges in sociocultural integration in a merger is to be able to tackle cultural issues early. However, this is often not on the top of the managerial agenda as planning and negotiation processes tend to be dominated by strategic and financial considerations. Also, the division of responsibilities and activity segmentation often implies that specific cultural projects are not initiated by the people responsible for the strategic plans. Top management seldom pays much attention to sociocultural issues (cf. Jemison and Sitkin, 1986). In this respect, our case is an interesting exception. In fact, creating a shared corporate vision was one of the key issues that the top management focused on both in the Merita–Nordbanken and MNB–Unidanmark mergers.

Apparently, key representatives of Nordbanken (Sweden) had focused on outlining a shared corporate vision already in their previous domestic acquisition of Gota Bank in 1993. In this acquisition, top managers had started negotiations with a focus on a joint vision statement to ensure that the expectations of both parties would fit together. This vision statement later provided the basis for the actual integration of the new organization. A Swedish top manager who played a central role in this process stressed the positive experience of this exercise as follows: "If there is something that I've learnt it is that it is much more important to share a vision for the bank than to mechanistically estimate the synergy savings." It seems that the Finnish managers coming from Merita had similar kinds of ideas concerning the importance of focusing attention on a joint future as a means to avoid cultural confrontation and the politicization of specific questions.

Working on a shared corporate vision became a key managerial objective in the Merita–Nordbanken merger. When the negotiations were initiated, the representatives of Nordbanken and Merita deliberately focused on outlining a positive but realistic vision for the new bank. Only after this endeavor did they turn to those questions that are usually seen as critical in merger negotiations. These include the valuation of the firms and distribution of top management positions in the new firm. This first shared vision provided the preliminary guidelines for future decisions. For the new top management of MeritaNordbanken, working on shared visions served as a method for solving problems in the following organizational change processes. Several top managers saw this idea as a key learning experience. As a Finnish manager put it: "What was important in this process, and what I then learnt and used later, was not at all to discuss critical issues concerning the merger deal itself, but rather, through the business concept, [to discuss] our vision concerning the development of the industry and the business concept of the new, merged bank."

Not particularly surprising in view of the positive experiences of the Swedish and Finnish top managers, they insisted on starting the negotiations between MeritaNordbanken and Unidanmark in a similar way. "We used the same model," as a representative of MeritaNordbanken put it bluntly. Apparently, the Danish representatives had nothing against this, as they had themselves seen the importance of clear-cut corporate messages in their previous domestic merger between Unibank and Tryg-Baltica in 1999.

The discussions between these two parties resulted in a document providing the basis for the operations of the organization after the merger. When the top managers of MeritaNordbanken and Unidanmark announced their decision to merge in March 2000, they presented a revised version of the joint document containing a brief statement of the mission, the vision, and the overall values for the new organization. This corporate statement was presented to the public as well as to the employees of the merging companies. Work on the corporate vision continued after the announcement of the merger. Revised versions of the corporate statement were drafted in the following year. The corporate value programs, orchestrated by the Group Identity and Communication unit and discussed further below, could be seen as a follow-up of this process.

On the whole, the top managers viewed the focus on shared visions as "the right approach" to avoid unnecessary cultural confrontation and organizational politics, which often characterize international merger settings. In fact, the idea of starting any negotiation with a future vision has thereafter been presented as a key learning experience in various internal and external forums by the top managers of Nordea. However, on a more critical note, it has been speculated that this focus on corporate statements made the corporate management rely too much on this particular method as a means of solving problems related to (cultural) confrontation. The limited dialogue between top management and the rest of the organization was criticized. It was seen to undermine the value of the corporate visions. The perceived success with the corporate visions was apparently a reason behind the decision not to engage the organization in specific cultural training programs in the MNB–Unidanmark merger—an issue that we will return to later.

"Virtual Headquarters"

Comparisons between the two merger parties regarding such issues as ownership, distribution of managerial positions, location of headquarters, and—in cross-national settings—choice of the corporate language appear to be inherent parts of sociocultural integration. These questions involve concrete decisions, but it is the symbolic aspects that are crucial in terms of understanding internal divisions and cultural confrontation. The Nordea case illustrates well the challenges related to headquarter location and the choice of corporate language.

In the negotiations concerning the Merita–Nordbanken merger in 1997, it soon became apparent that this would have to be perceived as a "merger of equals"; otherwise it would be very difficult to accept the merger in Finland and Sweden. This posed specific challenges as to the division of ownership and creation of a symbolic balance of power within the postmerger organization (see also Vaara and Tienari, 2003). The location of headquarters was in this sense a sensitive issue. However, the negotiators came up with an innovative decision to place the official domicile of the firm in Helsinki (Finland) but to move the actual corporate management headquarters to Stockholm (Sweden). Instead of concentrating top management work in one location, top managers were to spend time both in Sweden and Finland. This was viewed as symbolically important in the new organization. The extensive travels by executives were also intended at improving personal contacts and relationships between Swedes and Finns. The common interpretation among top management was that the decisions concerning headquarters and mobile managers had been correct.

When MeritaNordbanken and Unidanmark merged in 2000, the issue of headquarters location was again discussed. Apparently strongly influenced by the positive experiences gathered in MeritaNordbanken, it was decided that the new company would have no formal headquarters. Instead, there would be a "virtual headquarters"—a term later frequently used to denote this innovative idea. Top managers would retain their offices in their home country organizations but travel extensively in all the Nordic countries. Group executive meetings were to take place once a week either in Denmark (Copenhagen), Finland (Helsinki), Sweden (Stockholm), or later Norway (Oslo). This was a choice that effectively promoted the idea of equality between the different country organizations and nationalities.

However, after some time had elapsed, the problems of this approach became apparent. The difficulties that had been seen as minor in the Merita–Nordbanken merger grew into severe problems because of the increased size, geographical dispersion, and larger operational scope of the new pan-Nordic organization. The absence of a clear geographical center in the Nordic financial services group led to inflated travel costs and much valuable (and costly) time spent traveling. In addition, the rare colocation of the top managers—with few opportunities for spontaneous informal face-to-face discussions between representatives of different nationalities—was viewed as hampering effective decision making. A senior manager coined the general learning experience as follows: "What has received too little attention here is that the management does not spend enough time together." From an individual perspective, the constant traveling had negative effects on the "life balance." As a result of such experience, without making a big issue out of it, the top executive group agreed during the fall of 2001 to try to spend two days a week in Stockholm, geographically the most centrally located of the Nordic capitals. A senior manager explained this solution as follows:

> This model that we now have (virtual headquarters) was probably chosen to prove ourselves, our colleagues, or the journalists in Helsingin Sanomat (the leading daily newspaper in Finland) that this is a Nordic bank. But it cannot function like that, one has to establish one headquarters, and Stockholm is the only option.

Language Policy

In the negotiations leading to the merger of Merita and Nordbanken in 1997, the question of the language of the top management of the new bank was discussed, though not seen as particularly important at the time. Ironically, it was the Finn Vesa Vainio, the CEO of Merita, who suggested that the new top management would use Swedish. The reasons were pragmatic; the Swedes had Swedish as their mother tongue and the entire Finnish top management team spoke Swedish, some of them fluently. As Swedish is the second official language of Finland (and Swedish is obligatory for everyone at school), all Finnish employees supposedly spoke at least some Swedish. This decision just “happened by accident,” as one Finnish negotiator put it. When the decision to introduce Swedish as the working language of the corporate management of MeritaNordbanken was made public, it became a major issue of debate within the new organization. It also attracted considerable media coverage in Finland (see Risberg, Tienari, and Vaara, 2003). As a result, the top managers had to justify the decision made, for example, by referring to pragmatic needs, to the proficiency of the Finns in Swedish, and to the inadequate English skills of Nordbanken (and Merita) staff. Later, it was also specified that this language policy would apply only in areas where it was meaningful, in top management meetings and those business operations where interaction between Finns and Swedes was the liveliest.

The choice of Swedish as corporate language created various internal problems on the Finnish side of the organization. For example, many Finnish managers and members of staff perceived a power imbalance and felt inferior in their social interaction within the bank. The language choice also created a sense of professional incompetence and was psychologically strenuous for some. For example, Finnish experts had frequently considerable difficulty in communicating their views and expertise in meetings where Swedish was used. It was also speculated that the choice of Swedish as the working language was a reason for several key individuals leaving the Finnish part of MeritaNordbanken. At a symbolic level, the choice also involved a reconstruction of a history-laden Finnish–Swedish confrontation. In fact, not only the people within the bank but also the Finnish media framed this issue as (yet another) example of Swedish dominance, linked with the historical colonial relationship between the two nations (see Risberg, Tienari, and Vaara, 2003). Interestingly, it was not an issue frequently discussed in Sweden, being a “nonissue” for many Swedes who were able to continue speaking Swedish as before. For the Swedes, the symbolic aspects of this language choice were not obvious.

Most Finnish and Swedish managers, including members of the top management, saw the initial decision as a mistake, as the following reflections of two key actors illustrate:

> One can see this language issue as a strategic mistake, which was made a bit carelessly at some point in the merger negotiations.
>
> I’d say it [the choice of Swedish] was a mistake. This might be a bit difficult for the Swedes to admit. For us [Finns], it is perhaps a little easier.

When the merger of MeritaNordbanken and Unidanmark was planned, the top managers had several choices as to how to handle language policy issues. In the Nordic context, "Scandinavian"—a mixture of Swedish, Danish, and Norwegian—is widely used. English has, however, become an increasingly dominating language in most Nordic corporations, not only to be used externally but also internally. In this situation, the previous problematic experiences in MeritaNordbanken had, according to many interviewees, a fundamental impact on the language policy issue—not only on the eventual choice of English but also on the careful formulation of an explicit language policy.[2] Especially the Finnish interviewees could in this context talk about "correcting a mistake." According to the newly formulated language policy, English would become the official corporate language. However, in all locations everyone would be encouraged to use the language preferred by the customers.

Within the merged organization, the explicit choice of English as the corporate language was widely interpreted as the right decision. Among most Finns, the change from Swedish to English as working language was particularly welcomed. Almost all of the internal corporate communication is now carried out in English. Customers continue to be served in their own language in the four countries but most meetings among top management in Nordea are held in English, at least if there is a native Finnish speaker among the participants. This has created a situation where in professional interactions everyone is expected to use a neutral, nonnative language.

This language policy did not, however, turn out to be unproblematic. Although the choice of English solved the apparent question of inequality among the merger parties, it also meant that all organizational members had to communicate in a foreign language, creating problems in terms of clarity of expression as well as impoverished internal communication. Some people also questioned whether this language policy was consistent with the distinctive "Nordic" image of the Nordea organization. In everyday work-related and social interaction in the organization, "Scandinavian" is still widely used. Therefore, in many concrete situations the Finns may still find themselves in inferior positions vis-à-vis native speakers.

Cultural Awareness

The importance of being aware of cultural differences and potential cultural confrontation is frequently stressed in the cross-border merger context. In brief, cultural awareness can reduce unexpected postmerger problems, help map out potential areas of conflict, and help avoid misunderstandings and confusion. Explicit discussions of different cultural legacies may also allow people in merging organizations to raise and deal with issues concerning "us" versus "them" that otherwise would be too contentious to confront directly. However, discussions on cultural differences may also be counterproductive as they may strengthen nationalism and belief in the existence of "fundamental" cultural differences across countries and organizations as obstacles to integration. It has also been suggested that one should focus on the development of a "new corporate culture" instead of concentrating on the initial differences between the merging organizations. Our case provides an interesting illustration of how specific efforts aimed at increasing cultural awareness had a prominent role in managing the Merita–Nordbanken merger, but not in the subsequent merger between MNB and Unidanmark.

On the Finnish side, there was extensive experience with cultural training already before the Merita–Nordbanken merger. The domestic merger between the Union Bank of Finland and Kansallis in 1995 had involved a cultural training program where hundreds of managers and employees were brought together to discuss differences between the merging organizations and challenges in the integration of the banks, referred to in the Finnish tabloids as "Serbs" and "Croats" (Tienari, 2000). In the Merita–Nordbanken merger, based on their previous successful experience, it was the Finns in particular who pushed for cultural training (Säntti, 2001).

In the Merita–Nordbanken merger an important role was played by the Human Resource Development unit, which was responsible for running a series of culture seminars. These intensive events concentrated on cultural differences between Swedes and Finns, and Nordbanken and Merita. Approximately 330 managers and specialists took part in these seminars. The participants were encouraged to identify ways in which to develop cross-national cooperation in the new organization. Within MeritaNordbanken, the seminars were generally viewed as useful and interesting. It was seen as specifically important to acknowledge and openly discuss the historical and cultural background of the merging parties and to develop suggestions concerning how to further develop the new organization. On a more critical note, some experienced the seminars to be somewhat detached from their daily work.

The domestic Danish merger involving Unibank and Tryg-Baltica in 1999 was in many ways different from the MNB case. It was a merger combining a bank and an insurance company. The merger involved very limited integration of the actual operations of the banking and insurance parts of the merged organization. The need for specific sociocultural training programs was thus not obvious. Instead, the top management of Unidanmark (the merged company) relied extensively on communicating the strategy and values of the new organization to internal and external stakeholders.

When MeritaNordbanken and Unidanmark merged in 2000, the top management led by the incoming new Danish CEO decided not to initiate any centrally orchestrated cultural training programs. In fact, top management deliberately downplayed national cultural differences, and few organized efforts were made to address issues related to organizational or national differences. One of the key reasons for this approach was apparently a conviction among Danish members of the corporate management that one should focus on the future and not to spend too much time on "irrelevant" cultural differences. Successful experiences with working on shared vision statement also made other members of the corporate management confident that "things were moving in the right direction" (see the discussion above). It should be noted that the joint corporate statement published when the merger was announced emphasized that the new organization would build on common Nordic values. Dwelling on differences between the Nordic countries could thus be seen as contradicting this message, which was intended to internal and external stakeholders. Of the latter, especially those outside the Nordic countries typically perceive the region as a "cultural block."

Interestingly, the Group Identity and Communication unit led by a Danish top manager was given a prominent role in developing, presenting, and cascading throughout the firm a set of corporate values for Nordea in 2001 (see Björkman and Søderberg, 2003; Søderberg and Björkman, 2003). While much effort was focused on the branding of Nordea, national or organizational cultural differences were not paid attention to in this process. The Human Resources function, which had been responsible for organizing cultural seminars in MeritaNordbanken, only became actively involved late in this process. Neither Finnish nor Swedish executives, who had experience from the cultural seminars in MeritaNordbanken, had any overall responsibility for sociocultural integration projects in Nordea.

Overall, this lack of specific cultural training programs got mixed responses among the top managers in Nordea. Some viewed it as the right choice given other priorities. Many others saw a need to reflect on the differences that were perceived to exist across the countries and organizations. Interestingly, some managers recognized this need only after some time had elapsed since the first integration efforts. As a Danish senior manager in charge of a major unit put it: "I have learnt that one should be more aware of the cultural differences before starting this kind of process." Some individual units in Nordea did in fact at an early stage initiate their own actions to tackle cultural integration in the implementation of the MNB–Unidanmark merger.

Discussion

Our analysis of learning in the multiple M&A leading up to the creation of the financial services group Nordea shows how learning on sociocultural integration is inherently context-specific, that it is characterized by ambiguity, and that the significance attributed to learning from past experiences depends on the dominant coalition of organizational actors. First, owing to the fact that the nature and form of sociocultural integration challenges vary from case to case, the learning experiences tend to be closely linked with specific cases. The Nordea case highlights the *context-specificity* of learning in M&A. Approaches that are found to work in one context do not necessarily produce positive outcomes in others. For instance, the experiences around "the virtual headquarters" illustrate how ideas developed and supported by experience in a specific context may produce unintended consequences in a new situation. However, this does not mean that learning cannot be useful also in changing circumstance as illustrated by the positive experiences in using corporate vision statements in several consecutive M&A.

Second, learning is *ambiguous* in the sense that it is very difficult to evaluate the outcomes of specific sociocultural integration strategies. As our examples illustrate, many actions taken to promote sociocultural integration in a merging organization are, at least to some extent, controversial. For instance, evaluating whether the cultural training program in Merita–Nordbanken was "successful" or not is subject to interpretation. Large-scale, complex mergers involve a multitude of integration efforts and events, planned as well as unplanned. Actions and events that initially are not considered important by top managers may later in the integration process be found to have significant consequences. This means that knowing whether or not certain integration efforts lead to results above or below an aspiration level, that is, a good or bad experience—the cognitive basis of learning—is ambiguous. Although most Merita–Nordbanken managers interpreted that the effects of the cultural training seminars overall had been positive, they had little concrete unambiguous data to back this up with. This ambiguity may have led to a questioning of the learning experiences, especially from people who were not personally involved in deciding on and implementing the cultural seminars.

Third, our analysis illustrates how learning is to a significant extent embedded in specific social groups and even personified, and that the significance of the learning that takes place in the organization depends on the *dominant coalition of actors*. Our examples show how the experiences gathered in MeritaNordbanken influenced several of the sociocultural integration decisions concerning the new group. However, concerning the idea of promoting cultural awareness through specific programs, it was the Unidanmark model that prevailed. The cultural training methods—and learning experiences—of the domestic Finnish (Merita) and Swedish–Finnish (MeritaNordbanken) mergers were not used. The Group Identity and Communication unit, which was given a prominent role in sociocultural integration process in the MeritaNordbanken–Unidanmark merger, did not contain people with first-hand experience from developing cultural awareness programs in MeritaNordbanken. Hence, the experiences in the preceding cross-national case were not exploited in the subsequent one. These observations are important as they point to an inherent problem concerning learning in merger contexts; the experiences of those who are—because of organizational reshuffling or shifts in dominant coalitions across organizational units—no longer in key positions are easily lost.

How to Enhance Learning in Cross-National Mergers

As the Nordea case illustrates, learning concerning sociocultural integration is far from straightforward. It is therefore easy to understand why previous research has shown that an increase in merger experience does not automatically translate into enhanced merger integration capabilities. Nonetheless, organizing always involves learning, whether people are aware of it or not, and previous experiences do have an impact on people's thinking and behavior. We suggest that there exist several challenges for decision makers in firms in terms of how to enhance processes of learning on sociocultural integration:

- *Identify who has learnt what.* The firm should ideally try to make sure that the existing experiences and knowledge are teased out and used—albeit with caution—when new strategies and actions are outlined. The Nordea case illustrates that although extensive sociocultural integration experience had been accumulated in some parts of the organization, this learning was not drawn on in the subsequent merger.
- *Establish who is responsible for learning what.* Learning requires actions, observations of outcomes, and interpretations of the relationships between actions and outcomes. Individuals tend to learn about issues that they pay attention to. Individuals and units with a specific area of responsibility in the merger integration process are therefore more likely to collect data on how well the sociocultural integration process is proceeding. Concrete actions to achieve integration are also more likely to be undertaken if somebody is responsible for the issue in question. In the merger between MeritaNordbanken and Unidanmark, announced in March 2000, no separate integration organization was established (until a new Deputy CEO was appointed in September 2002 with this responsibility) and no unit carried overall responsibility for sociocultural integration. It appears that this may have led to both a lack of utilization of some of the prior merger integration experience residing with units within the merging organizations, and only relatively limited attention to how the sociocultural integration process in general was proceeding.
- *Stimulate processes of experience articulation and codification.* A particular problem in a cross-national merger is to make explicit and codify the

knowledge residing in different parts of the organization. Even though explicit responsibility for different sociocultural integration activities is likely to rest with some units and individuals, it is important to collectively engage in a process of explicitly sharing and then critically discussing and articulating what "worked" and what did not (Zollo and Winter, 2002). A higher level of effort is needed when individuals codify their learning in writing, such as manuals.

– *Ascertain that the contextual nature of learning is critically evaluated.* The actions that are perceived to have led to positive outcomes in one merger process may or may not have positive performance effects in another context. It is therefore of utmost importance to critically scrutinize previous experiences from the point of view of being able to see how new circumstances differ from previous ones as well as to understand links between the two. The end result could be an enhanced understanding of what kind of approach to sociocultural integration works in what kind of situation. For this to materialize, it is crucial for the firm to develop an understanding of why a certain approach works in a specific context. A major challenge may in some situations be active unlearning of earlier successful ways to deal with sociocultural issues. Learning how to better handle sociocultural integration is not likely to be a simple task, but the potential payoffs in terms of improved merger performance are likely to be significant.

Notes

1. In addition to the authors of this paper, the following persons participated in the data collection: *Tore Hundsnes* (Norwegian School of Economics), *Christine B. Meyer* (Norwegian School of Economics), *Annette Risberg* (Copenhagen Business School), and *Anne-Marie Søderberg* (Copenhagen Business School). *Karl-Olof Hammarkvist* (Stockholm School of Economics) was also a member of the research team.

2. English became the language for the board, executive management teams, and some of the wholesale banking units (working in an international setting), whereas local languages remained the primary means of communication for employees in, for example, retail banking.

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Executive Commentary on Chapter 7

BERND RATZKE AND TOM KELLY

In the following commentary, we will look at three aspects of Ingmar Björkman, Janne Tienari, and Eero Vaara's essay. Our experience in this field results from the merger of HYPO-Bank and Vereinsbank in 1997 and from the integration of BPH, Krakow, and Bank Austria, Vienna.

We will first of all look at the issue of resistance to change and examine helpful approaches from a training as opposed to a learning perspective. Secondly, we will look at "Mergers of Equals" and "Mergers of the Best" and show how managers learn about their potential new roles during a structured selection process. Finally, we will examine the role vision plays in the whole merger and integration process.

Resistance to Change

We are living in a world of change, of that there can be no doubt. Some social scientists even speak of chronic change, which might suggest that change is some sort of new virus. One would therefore expect the scientists to develop new medicine or raise antibodies to resist or combat this virus. Ingmar Björkman et al. point out clearly that one of the main reasons mergers fail is resistance to change. The question which then arises is: How do we deal with change?

Viewing change as some sort of corporate virus will not help—the desired state will be one where the systems and the individuals within them can adapt themselves to the changing environment. Creating such a state will allow a new vision to be translated into strategies.

So how do we develop this positive attitude to change? First of all, the reasons for the change have to be clearly communicated; and after the initial decision on a merger has been taken, probably the next most crucial factor determining the success or failure of a merger is the way the change process is communicated. Secondly, the entire executive management team must be actively involved and on board in the change process. Actively involved means sticking closely to the targets, processes, and actions in the new environment. Good managers, not only in merger situations, should be in a position to answer their employees' questions about targets and processes. Not knowing what these targets and processes are or sticking to old modes of behavior will make it extremely difficult to implement new ideas. (See also John Kotter Leading Change.)

Do managers see a difference between the old and the new system or not? Ingmar Björkman et al. ask if it is possible to transfer previous experiences into a new system. The HVB Group was recently faced with the challenge of implementing a new business model in the whole retail banking area. This involved the implementation of a new IT-based interactive customer relationship management process that was an absolute revolution for bank clerks. They had to learn a fundamentally different way of dealing with customers, which involved learning how to sell using the PC screen but without losing the customer's attention. In the process, the bank clerk was no longer free to choose products for his/her customer. His/her consulting role had changed dramatically.

The management leading these clerks also had to go through behavioral changes. They were faced with the challenge of how to support their employees, and new coaching concepts to help them perform this duty were developed. This is a far cry from the exciting talk of visions and missions and charismatic leadership. This is the gruelling and vital task of ensuring that the new business model is implemented in the same way in every part of the business. The new targets and quality standards have to be achieved and new processes put into practice and it is the job of management to ensure that the staff are fully aware of this and work together to accomplish this goal.

What did we learn during this process? We learned that it is extremely important and helpful to train managers in specific and defined situations of change so that they in turn can reach their employees. You have to identify the success factors and coach these. The magnitude of the task becomes clear if you do this for the whole group and not just for a single unit. But it is a worthwhile investment, because as a result every manager can see the difference between the old and the new system. Every manager gets the instruments and behavioral rules they need to support their employees. Every employee gets answers to his or her questions. McDonald's led the way in defining such quality standards and then implementing them simultaneously, with success, worldwide.

In merger cases, the approach is the same as for business model changes. The main difference lies in the fact that you have to pick up the experience and values of the various managers and employees. The training and coaching experience of the HVB Group showed that if you focus on the actual day-to-day work, focus on the content of their job, the cultural, and behavioural aspects will crystallize in a very relevant context. This is far more beneficial than dealing with culture on its own in training sessions where the context is missing and possibly also the opportunity to learn.

Ingmar Björkman et al. say that it is of "crucial importance for firms to develop their integration capabilities." This would mean the integration of content, people, culture, and behavior. Very often, attempts are made to integrate the people, culture, and behavior without the content. Our experience showed that this approach tended to be unbalanced.

Merger of Equals

From our point of view, the "merger of equals" is just a dream. The success of mergers will depend on the ability of the new company to formulate new strategies. Structures follow strategy and new structures call for competent and efficient managers who reach the new targets.

Selecting the right people for the new management positions is not a question of choosing equal members from the companies merging. It is essential to select the best candidate for the respective job. This is not the nicest of tasks but top management who are involved in this selection process must be able to explain why one candidate is more suited to the new job than the other, and this process must be transparent and fair. By this, we mean the selection criteria must be objective and the process structured. In the case of HYPO-Bank and Vereinsbank, this process was awarded top priority. In hindsight, the executives praised the work done here—it was transparent and fair. Everyone had the same chance but it was a "merger of the best" and not a "merger of equals."

Let us now have a brief look at the selection process itself as it represented an example of how to create and live values in the new company. The process started at the top because all the executive levels were needed in the structured interviews. Each interview lasted ninety minutes. There were three interviewers: one from human resources, the candidate's previous boss, as well as the candidate's designated new boss. The goal was to find the best candidate and there were normally two candidates for each management position, both former banks having, for example, one head of accounting. A number of scenarios were envisaged. One was that neither of the candidates was suited to the new job based on previous performance, lack of knowledge, or for age reasons (a number of executives were nearing retirement age). Another scenario was that you had more than two candidates because of high potentials in the existing executive portfolio. Therefore, it became important not to focus too closely on the position alone but to identify the top team for a particular management level. So, in the postinterview selection panel meetings, the first question was: "Has this candidate got the potential for this management level or not?" If the answer was yes, then the next question was: "What possible positions could they fill and did they have the scope to fill a number of different positions?" Of course, mobility also played a role. In cases where two excellent branch managers were located in one area, it didn't really matter who you offered the job to but it did matter that you had comparisons with candidates in other locations.

As already mentioned, the executives were quite happy with the level of transparency and fairness in the process. But the next stage called for greater commitment. It is quite easy to bring the good news "you've got the job," but it is much more demanding to convey the news "you're an excellent employee but we feel that you do not yet have the management skills for this new, expanded job." Interestingly, many of the executives involved in the interviews asked the human resources interviewer to do this job for them. We feel this is a leadership task and responsibility and should have been done by the potential new leaders.

Sharing One Vision

Ingmar Björkman and his coauthors quoted the former CEO of Nordbanken and Merita–Nordbanken in their chapter, "If there is something that I have learnt it is that it is much more important to share a vision for the bank than to mechanically estimate the synergy savings." We support this view fully and see it "as a useful basis for all integration activities." The HVB Group had such a vision, a story for the new company right from the beginning. It was called "Bank of the Regions." It was a good message for the public and for the analysts and proved very helpful in further integration activities. "Be part of the HVB Group with IT-platform synergies but have separate market access with an individual brand name!", like Vereins- und Westbank in Northern Germany or Bank Austria in Vienna.

In 1997 HYPO-Bank and Vereinsbank each had approximately 13,000 employees. By 2002, the group, together with BPH in Krakow and Bank Austria in Vienna, had become the second largest bank in Germany with a total member of 73,000 employees at its peak.

At the end of 2002, the Group announced that Dieter Rampl would take over the helm at HVB. In his first speech to the employees, Rampl paid tribute to the strategic success of Albrecht Schmidt's "Bank of the Regions," a vision which ensured the group's independence. All eyes are now focused on Rampl in expectation of a new vision, one which will excite the minds of employees and customers in the search to shake off the crises now hitting the whole German banking sector.