

Discussion Paper Series

RIEB

Kobe University

DP2020-09

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Operational Business During
M&A: The Effect of Employees'
Vision and Cultural Openness**

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February 21, 2020



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Necessity to integrate operational business during M&A: Effects of employees' vision and cultural openness

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Abstract

This research investigates the impact of target- firm employees' vision and cultural openness on their perception of the need to integrate their operational business into a bidder firm.

The results show that, not vision but cultural openness positively correlates to target-firm employees' perceived need to integrate their operational business into the bidder firm. However, culturally open employees with a clear, articulated vision perceive less need to integrate their operational business into the bidder firm.

This research contributes to understanding the behavior of the target-firm's employees in particular. While the decision to undertake an M&A integration process is primarily driven by economic issues, a successful result is influenced by social issues, such as the cultural openness of the target-firm's employees.

Keywords – Cultural openness, integration necessity, M&A, vision

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Introduction

Research on mergers and acquisitions (M&A) has received considerable attention since the late 1980s (Chang-Howe, 2019). Andriuskevicius (2017) shows that such research predominantly focuses on the financial domain and largely neglects human capital. In addition, most of the empirical M&A research is grounded in big data. While Rozen-Bakher (2018) explains that performance outcomes depend on the type of M&A, Shin *et al.* (2017) reason that most failures result from a lack of attention to employees. Further, Dorling (2017) notes that “M&A deals often fail due to unsuccessful [post-merger integration] implementation because leaders fail to consider the psychological impacts when trying to overcome resistance” (p. 936).

Despite these research efforts, the literature does not yield satisfactory results on the reasons for a successful M&A. The only thing known is that the success rate of M&As remains relatively low (Cartwright, 1990; Haleblian *et al.*, 2009). Ahammad *et al.* (2016) find that cultural similarity acts as a mediator in the relationship between knowledge transfer and firm performance, and Savovic (2017) finds that employees’ attitudes mediate positively the relationship between organizational cultural differences and post-acquisition performance. As the integration period is a dynamic one (Steigenberger, 2017), its main focus lies on change management. A positive acquisition outcome can be a source of improvement that leads to competitive advantages (Birkinshaw *et al.*, 2000; Child, 1999), but the bidder firm has to integrate the target-firm to some extent, or synergies cannot be achieved.

Even so, research tradition on synergies focuses heavily on the bidder side (Haspeslagh and Jemison, 1991), as the target is seldom included in the strategic decisions made to achieve synergies. To the best knowledge of the authors, the literature has not yet determined to what extent employees at the target-firm perceive the necessity to integrate their operational business into the bidder firm. Following this idea, we propose that the degree to which such employees are open to change (cultural openness) and the degree to which they have a clear vision about the change (vision) influence their perception of the necessity to integrate. Therefore, this research elaborates not on performance or perceptions of success but on the question of the target-firm’s employees’ perception of the need to integrate their operational business into the bidder firm. We refine our research question in three alternative hypotheses elaborated in a model.

The study proceeds as follows: After a discussion of theoretical background and hypotheses development, we introduce and discuss our model and survey results. The concluding section contains a summary.

Theoretical framework and hypotheses

Theoretical framework

The theoretical framework of this paper relies on the knowledge-based view, which argues that knowledge is a basic resource and a key to competitive advantage (Grant 1997; Savovic, 2007). A reduction in knowledge asymmetry between a target-firm and a bidder firm reduces uncertainty and increases the overall knowledge stock (Vermeulen and Barkema, 2001). In pursuing the stock of knowledge, target-firms have easier market access in their home countries and better networks with local suppliers and customers (Savovic, 2017) than foreign bidder firms do, so the former's knowledge is essential to the latter.

Transferring knowledge also has advantages over engaging in simple exchange relationships with followers (Covin *et al.*, 1997; Densten, 2008). Huang *et al.* (2010) focus on key success factors in knowledge transfer during M&A and state that highly motivated employees are more likely to transfer appropriate knowledge than less motivated employees are. Related to that study, Cho *et al.* (2017) suggest ways to increase employees' affective commitment in M&As (Le Floc'h and Scaringella, 2017). Trust is also an important element. As Barger *et al.* (2015) report, "trust within a firm is a potentially valuable asset that can reduce transaction costs, increase cooperation among employees, and enhance the exchange of specialized knowledge" (p. 405).

Based on the knowledge-based view, our idea is that higher cultural openness among the target-firm's employees leads to a higher perception of the need to integrate their operational business into the bidder firm, but that employees with a more vision feel less of such necessity. In other words, a target-firm's employees perceive a greater necessity to integrate their operational business into a bidder firm when they easily connect with the bidder firm's employees, while if they have a clear vision instead, they tend to prefer remaining autonomous. These ideas should be especially relevant to our case study on a cross-border acquisition in which a Japanese firm acquired a German engineering firm.

Hypotheses development

The literature divides cultural openness into four constructs: meta-cognitive, cognitive, behavioral, and motivational (Ang *et al.*, 2004). While meta-cognitive cultural openness describes an individual's cultural consciousness and awareness when people from different cultural backgrounds interact, cognitive cultural openness describes an individual's knowledge about cultural settings other than her own (Bebenroth and Ismail,

2018). When interacting with people from different cultural backgrounds, behavioral cultural openness refers to an individual's flexibility in verbal and nonverbal actions.

Our research interest is in the fourth construct, motivational cultural openness, which fits best with individuals' self-efficacy and covers the interest in adapting to cultural differences that is important in cross-border acquisitions. We apply this construct to refer to a person's willingness and intention to interact with those from other cultures (Earley and Ang, 2003). Specifically, we want to shed light on how a target-firm's employees see the necessity to integrate their operative business into the bidder firm. Motivational cultural openness ("cultural openness" hereafter) receives considerable attention in organizational psychology research (Bebenroth and Ismail, 2014; Kaflehn *et al.*, 2015; Van Dyne *et al.*, 2008). Support for this idea is also found in Porter *et al.* (2017), who state that cultural openness influences the people's perceptions. Other research shows that more open-minded people, such as expatriates, perform their jobs better than less open-minded people (Huang *et al.*, 2005; King *et al.*, 2004). Feurer *et al.* (2016) make a similar argument for consumers, stating that more open-minded consumers relate negatively to consumer ethnocentrism. In other words, open-minded consumers are open to buying foreign products, whereas culturally closed-minded consumers opt for domestic products.

In line with our arguments, we extend the idea of cultural similarity by applying the construct of cultural openness to target-firm employees in an M&A context. We extend studies like Bauer *et al.* (2015), who investigate the role of cultural similarity as a moderator and find a positive effect of cultural similarity on innovation-driven M&As. We argue that target-firms' employees who have more cultural openness make friends among the bidder's employees more easily, are more receptive to foreign ideas, and learn more easily from others (Very *et al.*, 1997), including the bidder firm's managers. In contrast, employees with a lower level of cultural openness face increased problems (Li *et al.*, 2016). Therefore, we hypothesize that culturally open employees perceive a greater necessity to integrate their operational business into the bidder firm, such that:

H1. Target-firms' employees with a more cultural openness perceive more necessity to integrate their operational business into bidder firms than those with less cultural openness do.

The vision of target-firms' employees should also affect their perception of the need to integrate their operational business into bidder firms. Information about the bidder firm's intentions is not equally distributed among the target-firm's employees. Some have a clearer vision than others of what the bidder wants the target-firm to do in terms of, for example, how likely an integration is to occur or how likely the workplace is to be restructured. A vision is not something only top managers have, as every

employee has her own vision or at least an understanding about the future of the firm. Naturally, leaders provide vision and inspire to create the atmosphere for successfully integrating their firm's operational business into the bidder firm (Nemanich and Keller, 2007; Vasilaki *et al.*, 2016). Waldman and Javidan's (2009) findings support the view that employee involvement in drafting vision statements and in decision-making leads to better integration and organizational alignment in M&As. However, having a clear vision of what the bidder wants the target to become may lead the target-firm's employees to prefer to stay autonomous. Further, for top managers having an articulated vision improves motivation, productivity (Edwards, 2005), and trust (Petrescu and Simmons, 2008). A poor integration outcome in the M&A process is often associated with an absence of leadership and poor knowledge flows (Haspeslagh and Jemison, 1991), as evidenced by bidder-firm managers' lack of vision (Vasilaki *et al.*, 2016). We break these ideas down to the employee level and propose that target-firm employees with a better-articulated vision see less need to integrate their operational business into the bidder firm:

H2. Target-firm employees with a clearer vision are less likely to perceive the necessity to integrate their operational business into the bidder firm.

In addition to these two direct effects, we investigate the moderating effect of vision, suggesting that better-informed employees with a clearer vision will prefer autonomy when they are culturally more open. We argue that such employees typically prefer to collect and analyze data independently and to make their own judgments and control their operational business. A transfer of their operational business induces fear and a sense of loss of control. This group of employees is proud of their (target) firm and culturally open, so they see little need to integrate their operational business into the bidder firm. These considerations result in the following hypothesis:

H3. Vision moderates the relationship between cultural openness and integration necessity such that the positive effect of openness on integration necessity is weaker for employees with a higher vision.

Model

Our model describes how employees' vision and cultural openness influence their perception of the necessity to integrate their operational business into the bidder firm (Figure 1).

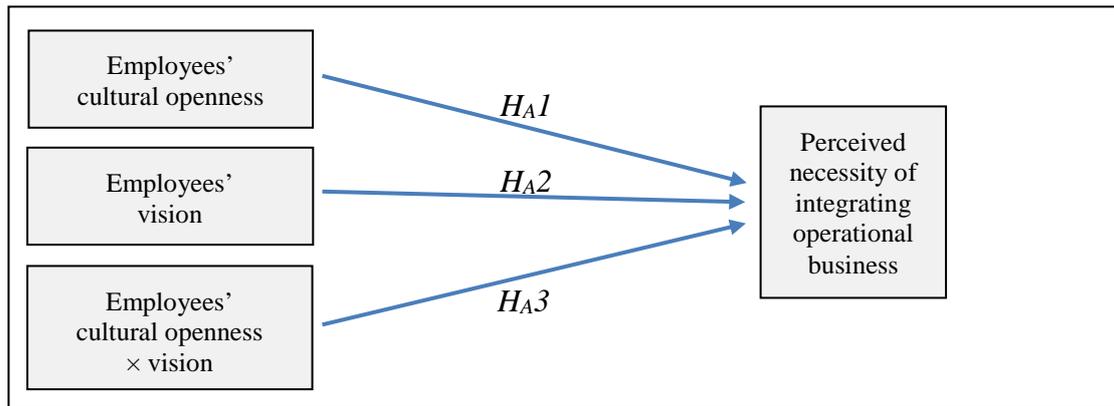


Figure 1. Research model

Methods

Case study

This research addresses participants on the target side of a medium-sized German engineering firm in the waste energy power plant industry (Bebenroth and Bartnik, 2018; Bebenroth and Ismail, 2018). Before the takeover, the firm ran as an independent provider of solutions for power plants. When firm was acquired in 2014 by one of the largest Japanese steelmakers, which had engineering units in the same field, the acquisition was a friendly and horizontal one. The Japanese steelmaker wanted the acquisition to increase its global reach, as the competition in the European market for engineering solutions at waste energy power plants is fierce, and prices are set low (Nicolli and Vona, 2016). This highly competitive industry has also a positive push effect, as the German firm became a standard-setter in the technological niche market of waste energy power plants. It is not uncommon for these firms to relinquish their independent identities and exit through acquisition (Cefis and Triguero, 2016).

While the Japanese bidder firm did not intend to increase its market position in Germany or Europe, it was interested in the German target's technical expertise so it could compete with its Asian rivals. Since these rivals were especially prevalent in China, the Japanese firm thought to enter the Chinese market using German technology. For its part, the German engineering firm could not enter the Chinese market, as it had no capacity to do so. For example, it would be difficult and expensive to send two or three engineers to China for several days each week, and the cultural barriers for Germans in China are much higher than those for Japanese engineers. High costs also prevented the German firm from conducting business directly in the Asian region. Under the acquisition arrangement, the German firm's top management perceived the value of German engineering technology's being promoted in Asia by the Japanese partner.

The Japanese partner would provide knowledgeable and competent staff, especially experienced, Chinese-speaking Japanese managers, to conquer the Chinese market in regard to engineering solutions for waste energy power plants. Further synergy in this Japanese-German joint venture would be achieved by combining German technology leadership with the solid financial backup of the Japanese steelmaker.

After the acquisition of the German firm, the Japanese firm sent several managers on short-term visits to the engineering firm in Germany (Bebenroth and Bartnik, 2018) so the Japanese managers could familiarize themselves with the target-firm in such a way that they could benefit from the German firm's technological expertise. One Japanese expatriate was appointed as vice president of the German target-firm, and two other Japanese managers were sent to the target-firm for three years to introduce the Japanese way of thinking to the German engineers and to facilitate communication (Bebenroth and Bartnik, 2018).

Data collection and sample

To obtain the target-firm's employees' views regarding the necessity of integrating their business operations into the bidder firm, data was collected at the German firm in 2015, a year after the takeover. The CEO was also interviewed several times before allowing a questionnaire study to be fielded at the firm. After that unofficial approval, a first draft of the questionnaire was sent to the CEO and his team to serve as a pre-study that would facilitate discussion on more detailed questions. Several months later, a link to the final, fully developed questionnaire was sent out to all of 240 the German firm's employees (Bebenroth and Ismail, 2018). A cover letter ensured all participants of anonymity and assured them that their company's top management had approved the questionnaire and actively encouraged employees to participate. This strong support was also communicated in a meeting of all employees, leading to a high response rate. After the second reminder, 176 usable questionnaires were received, a 73.3 percent response rate. As shown in Table 1, the average age of the participants was high at 48 years ($SD = 10.6$), and average tenure at the firm was around 16 years ($SD = 13.5$). The participants belonged to various divisions, with 28.4 percent from the "energy from waste" division, 22.2 percent from the gas cleaning division, and 12.3 percent from the project management division. Divisions with lower participation rates were finance (2.5%), human resources (2.5%), and purchasing (4.9%). Most of the participants were senior employees with significant company tenure who worked in technical divisions. Therefore, the sample can be considered comparatively homogeneous and adequate to fit to the statistical analysis.

Table 1. Sample characteristics

Variables	Frequency	% of total
<i>Firm tenure in years</i>		
less than 10	79	44.6
10–24	53	29.9
more than 25	45	25.4
<i>Age</i>		
under 30	15	9.7
30–40	17	11.0
41–50	46	29.7
51–60	62	40.0
over 61	15	9.7
<i>Division</i>		
Energy from Waste	46	28.4
Finance/Controlling/Accounting	4	2.5
Gas Cleaning	36	22.2
Human Resources	4	2.5
Project Management (Technical/Commercial)	20	12.3
Project Service	25	15.4
Purchasing	8	4.9
Sales & Proposals	15	9.3

Measures

All of the questionnaire's items were measured using a five-point Likert scale, with response options ranging from 1 (= strongly disagree) to 5 (= strongly agree). The questionnaire was written in German (translated from English) and the usual back translation method was applied (Douglas and Craig, 2007). As the construct for the dependent variable, we borrowed two items from Gerpott and Neubauer (2016) that addressed how employees perceived integration attempts in their firm: "In my view the integration of operational business is necessary for us as a German affiliate for a successful handling of projects" and "(i)n my view the integration of operational business is necessary for our firm's survival."

The vision construct came from Rafferty and Griffin (2004), but we did not apply all of the variables, as our rotated component matrix indicated that we use only three items for this construct. A sample question was "I have a clear vision of where the (bidder) wants to have our company in five years." We measured cultural openness with four items derived from the cultural openness construct developed by Van Dyne

et al. (2008). Statements in the questionnaire included “I enjoy interacting with people from different cultures.” Only four items were selected from the original five-item scale, as the fifth item—seen in the Varimax rotation analysis—was not relevant to this study’s context. Overall, our construct is systematically conceptualized and developed within this category (Brown and Treviño, 2006). Our argument is that the target-firm’s employees have high cultural openness; even though they had no contact with Asians before the takeover, many of them had extensive international experience in the industry.

Managing common method variance and bias

To minimize the risk of common method variance, we followed Podsakoff *et al.* (2003). The cover letter emphasized that the questionnaire was anonymous and that there were no right or wrong answers. We also reduced the risk of common method variance by careful construction of the items. In addition, a pilot study was conducted with the CEO and several managers to ensure that the questions were understandable.

We employed Harman’s one-factor test as an ex-post statistical method to determine whether common method variance was a problem. All of the items (constructs) that were evaluated (perceived necessity of integration, cultural openness, and vision) were entered into an exploratory factor analysis. We employed an unrotated principal components factor analysis to see if only one factor accounted for most of the covariance between the measures and found that three factors had eigenvalue higher than 1, with one accounting for 32.7 percent of the total variance and the second and third accounting for 25.8 percent and 17.9 percent, respectively (Table 2). The results of Harman’s one-factor test indicated that the first factor did not account for the majority of covariance (above 50%) and that common method bias was not a concern for the study.

Table 2. Principal component analysis

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.943	32.705	32.705	2.943	32.705	32.705
2	2.324	25.827	58.531	2.324	25.827	58.531
3	1.607	17.852	76.383	1.607	17.852	76.383
4	0.589	6.548	82.932			
5	0.367	4.079	87.011			
6	0.343	3.816	90.827			
7	0.311	3.452	94.279			
8	0.293	3.252	97.532			
9	0.222	2.468	100.000			

We undertook a rotated component matrix to ensure that the items loaded on the expected constructs. The first principal component fits strongly with both items on the perceived necessity of integration. To achieve this fit, we eliminated two questions that were asked in the original questionnaire. The second principal factor was correlated with four items on culture when we eliminated one of the questions from the original construct. The third principal component (vision) was originally measured with four items, but we took one item out that did not fit.

Table 3 shows the questions (back-translated from English and asked in German), constructs, indicators, and the rotated component matrix results. Not shown in the table but calculated are the items used to measure the constructs' internal consistency. Cronbach's alpha coefficients are greater than 0.7 (Nunnally, 1978); while the first construct (perceived necessity of integration) loaded at 0.86, the second construct (cultural openness) loaded at 0.84, and the third construct (vision) loaded at 0.87. The components also loaded on each of the factors nicely.

Table 3. Questions, constructs, indicators, rotated component matrix

Questions	Construct	Indicator	Component		
			1	2	3
In my view: ...integration of operational business is necessary for us as a German affiliate for the successful handling of projects.	Necessity of integration	Suc 1			.919
In my view: ...integration of operational business is necessary for our survival.	Necessity of integration	Suc 2			.932
I enjoy living in cultures that are unfamiliar to me.	Culture Q. 1	Cult 1	.730		
I am confident that I can socialize with locals in a culture that is unfamiliar to me.	Culture Q. 2	Cult 2	.846		
I often associate with people from other cultures.	Culture Q. 3	Cult 3	.869		
I am sure I can become accustomed to a culture that is different from mine.	Culture Q. 4	Cult 4	.852		
I have a clear vision of where (the bidder) wants our company to be in five years.	Vision 1	Vis 1		.883	
I have a clear vision of future changes.	Vision 2	Vis 2		.893	
I have a clear vision of what (the bidder) has done so far during the integration period.	Vision 3	Vis 3		.870	

Note. Extraction method: Principal Component Analysis.

Rotation method: Varimax with Kaiser Normalization.

a. Rotation converged in four iterations.

Results

Pearson correlation

The Pearson correlation (Table 4) shows that the construct of perceived necessity of integration is positively correlated to the construct of cultural openness. However, the vision construct is negatively but not significantly related to perceived necessity of integration.

Table 4. Pearson correlations

Pearson correlations					
	Mean	SD	Culture	Vision	Integr. nec.
Cultural openness	3.3578	0.94	1	-0.032	0.176*
				0.68	0.021
Vision	2.6169	0.96	-0.032	1	-0.069
			0.68		0.37
Integration necessity	3.5948	0.95	.176*	-0.069	1
			0.021	0.37	
Company tenure	15.9	12.5			

Note. N = 174

Multiple regression analysis

We calculated several multiple-linear regression models to predict the impact of the respondents' perceived necessity of integration on "cultural openness," "vision," and the moderating variable of vision on cultural openness, as shown in Table 5. Employees' tenure with the company served as a control variable and was grouped into three categories: up to 10 years (79 observations), between 10 and 24 years (53 observations), and more than 25 years (45 observations).

A significant regression equation ($F(3, 174) = 2.929, p < .05$, with an R^2 of .034) on cultural openness predicts employees' perceived necessity to integrate into the bidder firm (model 1). In model 2, we do not find evidence that vision predicts the perceived necessity to integrate ($F(3, 174) = 0.588, p > .10$, with an R^2 of .007). However, the interaction term of vision on cultural openness predicts perceived necessity of integration weakly ($F(3, 174) = 2.583, p < .10$, with an R^2 of .059) (model 4). Thus, hypothesis *H1* is strongly supported, while hypothesis *H3* is weakly supported.

Table 5. Multiple-Linear Regression

	Model 1		Model 2		Model 3		Model 4	
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	SE
Constant	2.867	0.341 ***	3.679	0.258 ***	3.065	0.394 ***	1.799	0.783 **
Company tenure	0.057	0.088	0.055	0.089	0.076	0.088	0.080	0.088
Cultural openness	0.187	0.077 **			0.179	0.078 **	0.547	0.212 **
Vision			-0.071	0.076	-0.08	0.074	0.411	0.273
Vision*Cult. Openness							-0.144	0.077 *
Model statistics								
R ²	0.034		0.007		0.039		0.059	
Adjusted R ²	0.022		-0.005		0.022		0.036	
F	2.929		*		0.588		2.249	
					*		2.583 **	

Note. * for $p < .1$, ** for $p < .05$, and *** for $p < .01$

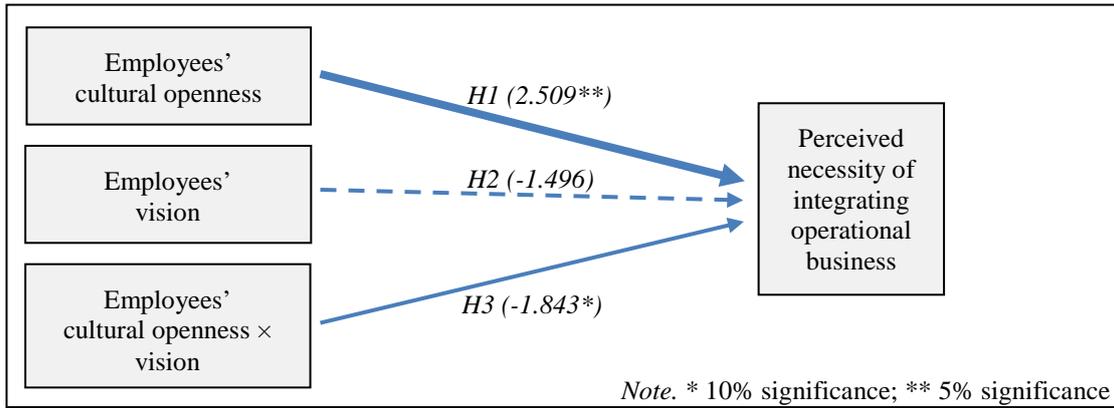


Figure 2. Significant paths for the model

Figure 3 shows a two-way interaction effect with “cultural openness” as the independent variable, “vision” as the moderator, and “perceived necessity of integration” as the dependent variable. The interaction effect is significant and disordinal.

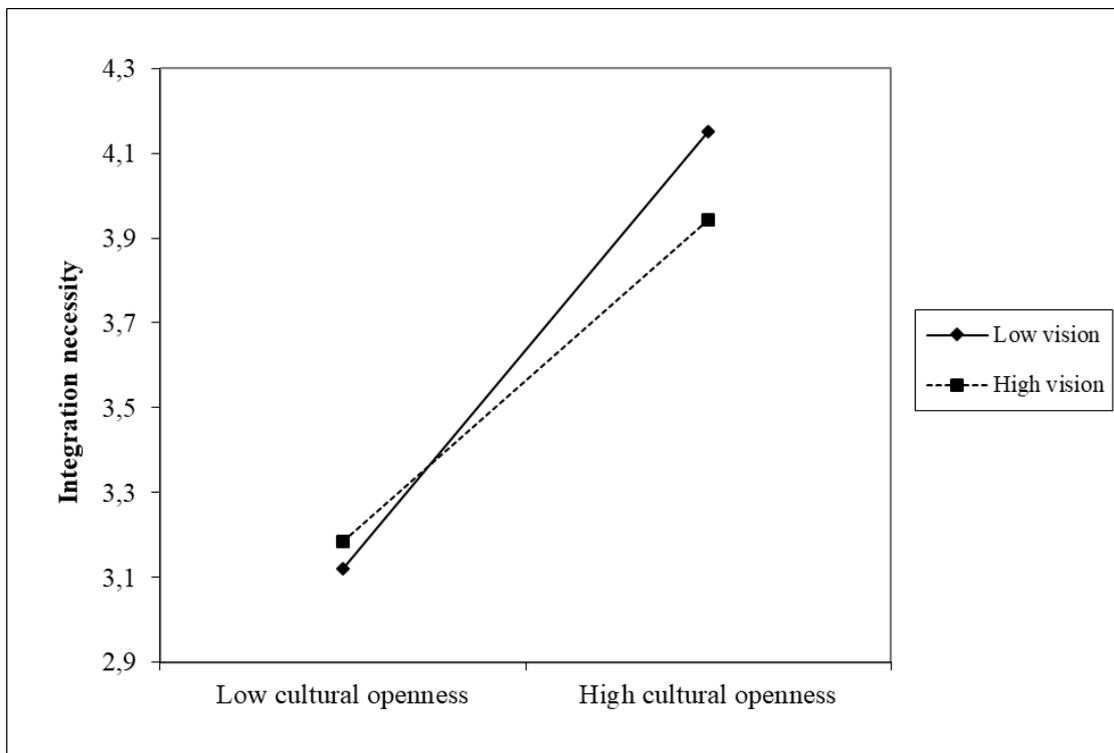


Figure 3. Two-way linear interaction effects of cultural openness, vision, and perceived necessity of integration

Discussion

Several of our findings grounded on the knowledge-based view are intriguing. First, we corroborate the theory that culturally more open target-firm employees have greater perception of the need to integrate their operational business into the bidder firm (Bebenroth and Ismail, 2014; Kaflehn *et al.*, 2015; Van Dyne *et al.*, 2008). We also find that the small group of employees with more cultural openness and a clearer vision (our moderator) perceive less need to integrate their operational business into the bidder firm.

Second, we extend previous research that focuses primarily on performance and success by shedding light on the issue of target-firm's employees' perceived necessity to integrate their operational business into the bidder firm. Yildiz (2016) proposes that cultural similarity between the buyer firm and the target-firm promotes benevolence-based trust and increases the acquiring firm's status. We show that the target-firm's employees' perception of the necessity of integrating their operational business into the acquiring firm depends on their cultural openness.

Third, in contrast to research like that of Vasilaki *et al.* (2016), we find no statistically significant evidence that employees with clearer vision are more negative about the necessity to integrate their operational business into the bidder firm.

Practical recommendations

As we study target-firm employees' perceived necessity to integrate their operational business into a bidder firm, we recommend that bidder managers bring in not only new employees but culturally open ones during the integration period. M&A integration could be an easier task when heterogeneous teams increase the variations in approaches to finding solutions.

In addition, culture- and vision-related issues during M&A integration can provide top managers clear signs about where the new organization should go in the near future. In particular, they should communicate a transparent vision through all levels of (target) employees' hierarchy. For example, without knowing or understanding the bidder firm's vision, target-firm employees will perceive that they have no control over their future, leaving frustrating and demotivating visionaries. Knowing the bidder firm's vision helps to define a common vision and induce cooperation among the target and bidder firms' employees. That is an important issue in this research as the Japanese firm was interested in the German target's technical expertise so it could compete against its Asian rivals.

Limitations of the study

Several limitations of this study should be taken into account. First, this research focuses on cultural openness or, more precisely, on the cultural openness of employees, as what we suggest is the most appropriate construct to measure perceptions of the need for integration. However, other confounding factors may influence the results, including dimensions like emotional intelligence. Harrison-Walker (2008) finds that target-firm employees' emotional intelligence and spirituality have strong influences on their psychological well-being in the post-M&A integration period. The same applies to our construct of vision. In addition, we did not take all items from the traditional constructs, as our Varimax rotation analysis suggested that we leave out items with lower loadings.

Second, by relying on constructs, we naturally have a risk bias. Our questions might have stimulated risk-neutral employees and provoked risk-averse employees to respond differently. For example, the questions related to cultural openness could be answered in a more positive way by risk-neutral employees, for whom "the unknown" is not a burden but a welcome change and an opportunity to explore something new, than by risk-averse employees. In contrast, risk-averse employee, who may be uncomfortable with situations that are not transparent and predictable, could respond to questions about vision in a negative way.

Third, this research is likely not free from errors that arise from misinterpretations of questions. For example, differing definitions of cultural openness and of vision may have distorted respondents' views. In addition, the moderator of vision was at only 10% significance, so it only weakly supports our hypothesis.

Fourth, the target-firm's country and, even more, the bidder's country (here, Japan) may influence the results. For example, Japanese managers tend hesitant about integrating cross-border target-firms. The type of industry also matters, as the steelmaking and engineering industries are more international in their settings than some other industries are (Lee and Ki, 2017; Ahmed *et al.*, 2020). This internationality is an advantage for our study because it leads to more heterogeneity in the sample. However, because employees in other industries may not behave in the same way, generalization and extension to other industries must be undertaken with care.

Conclusion

This paper extends M&A integration research by showing how target-firm employees' cultural openness and vision relates to their perceptions of the need to integrate their operational business into a bidder firm. Grounded in the knowledge-based view, our findings demonstrate that culturally more open employees feel more need to integrate

their operational business into the bidder firm. However, target employees with clearer vision and more cultural openness perceive less need to integrate.

Acknowledgement

This joint research originated in the Alexander von Humboldt Foundation (AvH Foundation) network and began in 2003. The authors gratefully acknowledge support from the AvH Foundation for meetings in Kobe in 2018 and 2019. The views reported in this paper are those of the authors alone and not those of any institution. All errors and omissions that remain are the authors' sole responsibility.

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