The cultural impact of cross-border acquisitions on the accounting function: A case study

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MINI-DISSERATION SUMMARY

Mergers and acquisitions (M&A) are one of the fastest strategic options that companies choose to face the global competitive market. This is evident from the number and the amount of growth in the value of the deals, as well as the occurrence of the “mega-mergers” in recent times. If companies do not adapt to the fast moving and evolving business environment, they will run the risk of becoming obsolete.

The key principle behind buying a company is to create shareholder value, which will give the organisation a competitive advantage. The reasoning behind M&A is that one combined company may be more valuable than two separate companies. Despite the popularity of M&A, 60-80% of M&A fail to create value. There are several reasons why M&A fail, such as the insufficient analysis and examination during the planning and early stages of the transaction, overpayment and poor management in the integration phase.

In the past 20 years, the volume of cross-border acquisitions has increased nearly three times faster than the volume of domestic acquisitions. Although cross-border M&A have become more popular, it comes with its own challenges and problems. The companies that enter into cross-border acquisitions need to face the issue of cultural differences, which is one of the common reasons of M&A failure. The participants of both companies need to integrate with the national and corporate cultures of the new company. In order for companies to be successful, the management needs to consider the impact and importance of these cultural differences.

Organisations frequently struggle with cross-cultural issues and it has been argued that the cultural distance between the country of the acquirer and the acquired is an important determinant of the success of cross-border acquisitions. In the example of the German company Daimler Benz and the American company Chrysler Corporation the fact that these two companies have very different cultural backgrounds and that their structures differed significantly complicated the merger. The company’s choice of languages, images, metaphors and rhetorical strategies had a huge impact on the acceptance of the merger by the employees.

Hofstede investigated the social dimensions of culture in order to develop a comprehensive model of culture. The model was developed on data collected from the IBM study of work-related attitudes of 116,000 employees in over 50 countries and three regions. The first four dimensions of culture were derived from this study namely, Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS), and Uncertainty Avoidance Index (UAI). Gray extended Hofstede's earlier cultural framework to an accounting perspective and suggested that accounting values are derived from cultural dimensions. Gray summarised his accounting values as: Professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency.

The research question and objective of this study was to investigate the potential impact of cultural differences of cross-border acquisitions on companies from an accounting perspective. In order to answer the research question there were three objectives set. The first objective is to investigate the impact that cultural differences have on a company using Hofstede's cultural dimensions, the second objective is to investigate the impact that cultural differences have towards an accounting perspective using Gray's accounting values. The third and final objective of this research is to interpret the potential impact of a cross-border acquisition on a company taking the cultural differences into account.

Considering the cultural differences, it was evident that there are differences between cultures, which may lead to cultural conflict and may hamper the success of cross-border mergers or acquisitions. The cultural differences that were observed, which was extended to an accounting perspective indicated that cultures do have an effect on the way accounting is done form one country to another. The conclusion can be made that companies do need to take the cultural differences into account before entering into cross-border mergers and acquisitions, and that proactive measures needs to be in place in order for the cross-border merger and acquisition to be a success.

SKRIPSIE OPSOMMING

Samesmeltings en oornames (S&O) is een van die vinnigste strategiese opsies wat maatskappye gebruik om die globale mededingende mark die hoof te bied. Dit word veral opgemerk in die toename in die aantal S&O in die laaste dekade. Indien maatskappye nie aanpas in die vinnig bewegende en veranderende sake-omgewing, sal hulle die risiko loop om verouderd te raak.

Die sleutel beginsel agter die rede om 'n ander maatskappy te koop is om die waarde vir aandeelhouers te verhoog, wat die organisasie ‘n mededingende voordeel sal gee. Die redenasie agter samesmelting en oornames is dat een gesamentlike maatskappy dalk meer werd is as twee afsonderlike maatskappye. Ten spyte van die gewildheid van S&O, toon statistiek dat 60-80% van alle S&O nie waarde vir anndeelhouers skep nie. Daar is verskeie redes waarom samesmeltings en oornames onsukselvol is, soos onvoldoende beplanning, te hoë prys wat betaal is en swak bestuur tydens die integrasie-fase.

In die afgelope 20 jaar, het die volume van oorsese oornames drie keer vinniger gegroei as die van binnelandse oornames. Hoewel oorsese S&O baie gewild geword het, kom dit met sy eie uitdagings en probleme. Die grootse rede vir die mislukking van oorsese oornames is as gevolg van die kulturele verskille tussen die betrokke partye. Tydens ‘n oorsese oorname moet alle partye betrokke met die nasionale en korporatiewe kulture van die ander maatskappy integreer. Die kulturele verskille wat betrokke is in so ‘n transaksie is een van die algemeenste redes hoekom samesmeltings en oornames misluk. Ten einde vir ‘n maatskappy om suksesvol te wees, moet die bestuur die impak van die kulturele verskille in ag neem en oplos.

Organisasies sukkel dikwels met kulturele aangeleenthede en daar is al beweer dat die mate van kulturele verskil tussen die oornemer en die oorgeneemde ‘n bepalende faktor is in die sukses van oorgrens oorname. Die transaksie tussen die Duitse maatskappy Daimler Benz en die Amerikaanse maatskappy Chrysler Corporation is bemoeilik deur die feit dat die twee maatskappye baie verskillende kulturele agtergronde het en dat hulle strukture ook beduidend verskil het. Die maatskappy se keuse van taal, beelde, metafore en retoriese strategieë het 'n groot impak op die aanvaarding van die samesmelting op die werknemers gehad.

Die boogenoemde het aanleiding gegee to die gebruik van Hofstede se kulturele dimensies. Hofstede het sy kulturele dimensies ontwikkel op data wat versamel is uit die IBM studie van werk-verwante houdings van 116,000 werknemers in meer as 50 lande en drie gebiede. Die eerste vier dimensies van kultuur is afgelei van hierdie studie, naamlik, Vlak van mag (PDI), Individualisme (IDV), Manlikheid teenoor vroulikheid (MAS), en die Vlak van onsekerheid (UAI). Gray het Hofstede se dimensies uitgebrei na 'n rekenpligtige perspektief en stel voor dat rekeningkundige waardes afgelei kan word van kulturele dimensies. Gray het sy rekeningkundige waardes as volg gekatogoriseer: Professionaliteit teenoor statutêre beheer, eenvormigheid teenoor buigsaamheid, konserwatiteit teenoor optimisme en geheimhouding teenoor deursigtigheid.

Die navorsingsvraag en doelstelling van hierdie studie was om die potensiële impak van kulturele verskille van oorsese oornames op maatskappye vanuit 'n rekeningkundige perspektief te ondersoek. Ten einde die navorsingsvraag te beantwoord was daar drie doelwitte gestel. Die eerste doelwit is om die impak wat kulturele verskille op 'n maatskappy met behulp van Hofstede se kulturele dimensies te ondersoek, die tweede doelwit is om die impak van die kulturele verskille vanuit ‘n rekeningkundige perspektief te ondersoek deur Gray se rekeningkundige waardes te gebruik. Die derde en finale doelwit van hierdie navorsing is om die potensiële impak van 'n oorsese oorname op 'n maatskappy te ondersoek deur die kulturele verskille in ag te neem.

Deur die kulturele verskille tussen nasies in ag te neem was dit duidelik dat dit tot kulturele konflik kan lei en die sukses van oorsese samesmeltings of oornames bemoeilik. Die kulturele verskille wat uitgebrei was na ‘n rekenkundige perspektief het aangedui dat kulture verskille ‘n definitiewe invloed het op die manier waarop rekeningkunde gedoen vorm een land na ‘n ander. Die gevolgtrekking kan gemaak word dat maatskappye die kulturele verskille in ag moet neem voordat ‘n oorsese S&O gedoen word, en dat pro-aktiewe maatreëls in plek moet wees sodat die oorsese S&O ‘n sukses kan wees.

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LIST OF ABBREVIATIONS

BE	Business Environment
CSFs	Critical Success Factors
CU	Organisational and National Culture
DM	Deal Motive
DS	Deal Strategy
IDV	Individualism
MAS	Masculinity
MBO	Management by Objectives
M&A	Mergers and Acquisitions
PDI	Power Distance Index
PoD	Processing of the deal
UAI	Uncertainty Avoidance Index
VSM	Value Survey Model

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CHAPTER 1

1. INTRODUCTION

1.1. Background

In the past 20 years, the volume of cross-border acquisitions has increased nearly three times faster than the volume of domestic acquisitions (Mantecon, 2009). Compared to domestic acquisitions, cross-border acquisitions present greater challenges for a buyer because cultural values and behaviour patterns are unfamiliar to foreign companies (Mantecon, 2009). *The World Investment Report 2007*, issued by the United Nations, reported continuous increases in cross-border acquisitions, with a value of $880 billion in 2006 (UNCATD, 2007:5). One of the important aspects of cross-border acquisitions is the impact of cultural differences between bidder and target countries and how they are managed. While the term culture is frequently used in our everyday lives, we do not have an exact definition for it. Culture is the collective programming of the mind that distinguishes one human group from another (Hofstede, 1984:13; McLeod & Hanks, 1985:272).

1.2. Cultural considerations

Cultural differences have previously been mandated by religion (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000), language (Stulz & Williamson, 2003), and law (Licht, Goldschmidt & Schwartz, 2005). The most recent literature, however, has recognised the value of Hofstede's cultural dimensions (Licht *et al.,* 2005; Benou, Gleason & Madura, 2007). Hofstede (2001) found four distinct cultural dimensions: Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS), and Uncertainty Avoidance Index (UAI). The research of Michael Harris Bond from Hong Kong, using the Chinese Value Survey, had led to the identification of a fifth dimension: Long-Term versus Short-Term Orientation (Hofstede & Bond, 1988; Hofstede, 2001). Minkov's research, published in his 2007 book "What makes us different and similar: A new interpretation of the World Values Survey and other cross-cultural data" also proposes three new dimensions: Exclusionism versus Universalism, Indulgence versus Restraint, and Monumentalism versus Flexumility (Minkov, 2007).

Hofstede's cultural framework (1984, 1997) was extended by Gray (1988:5-8) to incorporate accounting into Hofstede's framework by describing how accounting practices might influence and reinforce societal values. Gray's (1988) article in *Abacus was* crucial in the development of the idea that culture might influence accounting practices. Gray (1988:8) summarised his accounting values as follows: Professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism and secrecy versus transparency.

Organisations frequently struggle with cross-cultural issues in a variety of contexts (Mead, 2005), for example, a study of anti-smoking messages to teenagers across nine countries states that the effectiveness of such messages depends on the sensitivity of the cultures and anti-smoking advertisements should be adjusted according to the cultural background of each country (James, Miller, Foubert, Vida & Rybina, 2006). It has been argued that the cultural distance between the country of the acquirer and the acquired is an important determinant of the success of cross-border acquisitions (Hofstede, 2001; Kogut & Singh, 1988; Very & Schweiger, 2001).

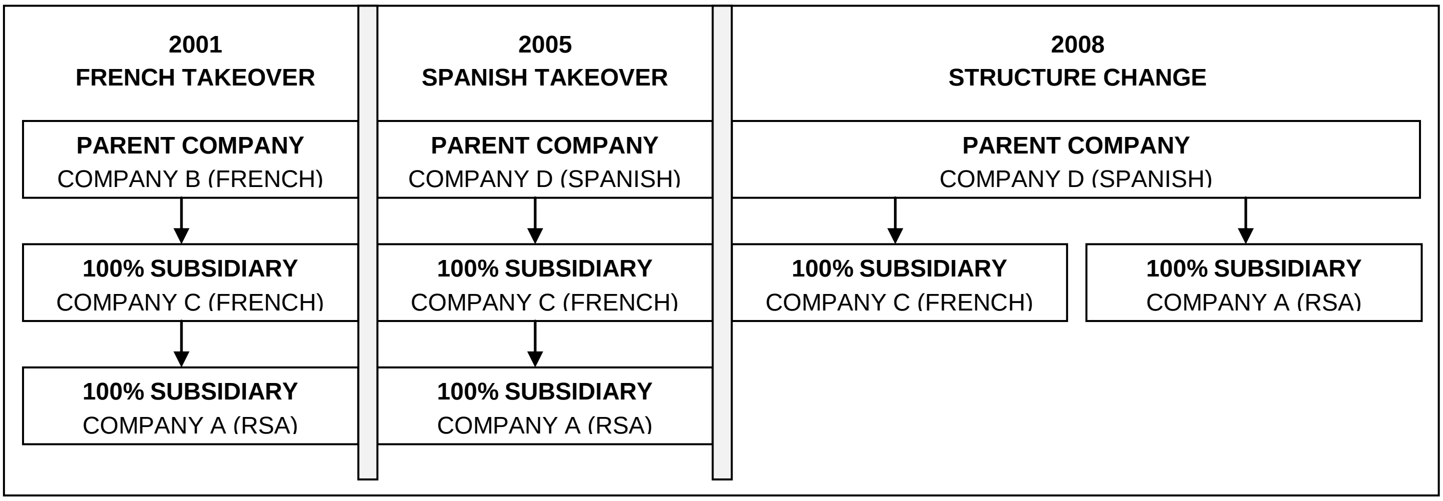
In order for the German company Daimler Benz to become a truly global automotive player, the company pursued a merger with the American company Chrysler Corporation. According to Fitzgibbon Dermidoff (2004), the failed Chrysler Corporation and the Daimler Benz merger was one of the biggest mergers in the 1990s in terms of financial resources and the number of people. Chrysler Corporation was the number three automobile manufacturer and the "comeback kid" of the North American automotive industry. Daimler Benz is one of the world's greatest luxury automobile manufactures. The fact that these two companies have very different cultural backgrounds and the fact that their structures differed significantly complicated the merger. Language was a further factor for Chrysler in how they envisaged the transformation from an almost totally North American company to an international one. Another prime area that was affected was the managerial communication, because the organisations must deal with a more diverse work force and management philosophy. The company's choice of languages, images, metaphors and rhetorical strategies had a huge impact on the acceptance of the merger from the employees. The reason is because language use, symbolism and rhetoric strategies are critical components in the structuring and continual restructuring of organisations (Fitzgibbon Dermidoff, 2004).

1.3. Motivation and field of research

Acquisitions usually involve a considerable amount of change and may create a climate of uncertainty (Hitt & Pisano, 2004). Every organisation has its own unique culture and ways of doing things. When an acquisition takes place, the acquiring company may want to change the culture of the company it has acquired. South Africa's wide variety of cultures leads to a lot of problems in companies because of the eleven official languages, where each language has its own culture, which may lead to internal conflict (Richard, 2008:27). The aforementioned becomes more complicated when a cross-border acquisition from outside South Africa takes place. A new culture is now interacting with a South African culture, which already has diverse cultural differences, and may only complicate things even more.

This study will take on the format of a case study, in which an actual South African scenario is analysed. The company to be used is Company A, which was commissioned in 1973 and is the largest producer of its specific final product in Africa. The core activity of company A is the production of a final product, which is sold to the international metallurgical and chemical markets. Looking at the structure of Company A, it needs to be considered that the study was not a longitudinal study, and based on the 2008 structure change. The structure of company A is presented in Figure 1.1 below:

Figure 1.1 Company A's structure



1.4. Problem statement

When a cross-border acquisition takes place, the acquiring company does not always know the way people do things in the acquired company and how its culture works. Therefore, the research question for this project can be formulated as follows:

P_1: What is the potential impact of cultural differences from cross-border acquisitions on companies from an accounting or management perspective?

Considering the aforementioned, the hypothesis of this study is that cross-border acquisitions have a negative impact on companies because of cultural differences.

1.5. Objectives

In order to answer the above question, three objectives are set:

- The first objective is to investigate the impact that cultural differences have on a company using Hofstede's cultural dimensions.
- The second objective is to investigate the impact that cultural differences might have from an accounting perspective using Gray's accounting values.
- The third objective of this research is to interpret the potential impact of a cross-border acquisition on a company taking the cultural differences into account.

1.6. Research method

To achieve the above objectives, a theoretical study of recent literature and an empirical study are required.

1.6.1. Literature study

The purpose of the literature review of this study is to:

- Conduct a thorough review in order to gain a good understanding of what cross-border acquisitions are and to analyse the impact it may have on a company.

- Conduct an in-depth review of Geert Hofstede's framework on cross-cultural differences to gain a good understanding of how cultural differences are seen, and to clarify the dimensions that will be used in the value survey model.
- Conduct an in-depth review that looks at how Gray incorporates accounting in Hofstede's framework by describing how accounting practices might influence and reinforce societal values.

1.6.2. Empirical study

The empirical study will consider the case of Company A and will use questionnaires addressed to the company. More specifically, the questionnaires to be used are as follows:

- VALUES SURVEY MODULE 2008 by Geert Hofstede looking at the cultural differences within the company.
- GRAYS ACCOUNTING VALUES will then be used to consider how Hofstede's cultural framework was extended to an accounting or management perspective.

By taking the above questionnaire answers into account, the researcher then aims to evaluate the impact of the cultural differences on the company and how it might relate to the accounting and management frameworks.

1.7. List of definitions

For purposes of this study, the following definitions are considered to be correct:

Acquisition:	The purchase of an organisation, or to obtain operational and legal control of another organisation (O'Regan, 2004; Damodaran, 2002).
Collectivism:	Any moral, political, or social outlook that emphasises the interdependence of every human in some collective group and the priority of group goals over individual goals (Orr & Hauser, 2008; Hofstede, 2001).

Conservatism:	Preference for the existing order of society, or to save or preserve the current (Chanchani & Willett, 2004; Gray, 1988).
Cross-border:	Taking place across a border, a company that is not located in the same country where the property is located (Oxford Dictionaries online, 2010; O'Regan, 2004).
Culture:	All the knowledge and values shared by a society (McDermott & O'Dell, 2001, The Oxford Paperback Dictionary Thesaurus & Wordpower Guide, 2001).
Femininity:	Refers to qualities and behaviours judged by a particular culture to be ideally associated with or especially appropriate to women and girls (Orr & Hauser, 2008; Hofstede, 2001).
Flexibility:	The quality of being adaptable or variable (Oxford Dictionaries online, 2010; Gray, 1988).
Individualism:	A belief in the importance of the individual and the virtue of self-reliance and personal independence (Orr & Hauser, 2008; Hofstede, 2001).
Masculinity:	Usually associated with men who are more interested in egotistic goals, such as careers and money (Oxford Dictionaries online, 2010; Orr & Hauser, 2008).
Merger:	Any combination that forms one economic unit from two or more previous ones (Gaughan, 2007; Wanjialin, 2004).
Optimism:	The general character to expect the best in all things (Oxford Dictionaries online, 2010; O'Regan, 2004).

Power distance:	The extent to which individuals in a society accept the fact that power is distributed unequally (Orr & Hauser, 2008; Hofstede, 2001).
Professionalism:	A person or organisation that supports a professional attitude (Oxford Dictionaries online, 2010; Gray, 1988).
Secrecy:	The trait of keeping things secret or disclosing information in a cautious manner (Oxford Dictionaries online, 2010; Gray, 1988).
Statutory control:	Control or regulation provided for by legislation (Oxford Dictionaries online, 2010; Gray, 1988).
Transparency:	The quality that implies openness, communication and accountability (Oxford Dictionaries online, 2010; Gray, 1988).
Uncertainty avoidance:	How a society accepts uncertainty and ambiguity (Avery, Baradwaj & Singer, 2008; O'Regan, 2004).
Uniformity:	Always the same; showing a single form or character in all occurrences (O'Regan, 2004; Gray, 1988).

1.8. Overview

The anticipated layout of this mini-dissertation is as follows:

Chapter 1: Introduction

This chapter will address the background of this study, provide the problem statement and objectives and highlight the motivation for the study.

Chapter 2: Background of mergers and acquisitions

This chapter will consist of a literature review focusing on acquisitions. The primary sources will be individual textbooks and academic journals. The objective is to lay the foundation for considering the cultural impact of acquisitions.

Chapter 3: Cultural considerations in the business environment

This chapter will consist of an in-depth discussion of Gray's accounting values that was extended from Geert Hofstede's cultural framework. This discussion on the cultural dimensions is used as the basis of the questionnaire to be used in the empirical study.

Chapter 4: Research design and methodology

This chapter will briefly outline the empirical design and inform the reader of the procedures the researcher used in conducting this study.

Chapter 5: Empirical research and results

This chapter will consist of the empirical data that is based on Hofstede's questionnaire and will be completed by the staff of Company A. Gray's accounting values will then be used to analyse the cultural dimension to an accounting framework. A statistical analysis and the testing of the hypothesis will be performed.

Chapter 6: Summary and conclusion

This chapter will provide a summary of the study in correlation with the objectives set. Conclusions and recommendations will be briefly discussed.

CHAPTER 2

2. BACKGROUND OF MERGERS AND ACQUISITIONS

2.1. Introduction

Mergers and acquisitions (M&A) and corporate restructuring are a big part of the corporate finance world. Every day, Wall Street investment bankers arrange M&A transactions, which bring separate companies together to form larger ones. These transactions are often very complex, and are made up of a wide variety of different transactions. These transactions can range from where a new entity is formed from two companies that merge, or where managers of an organisation acquire another organisation from its stockholders to create a privately held firm (Damodaran, 2002:690). The transactions also include the purchase or sale of a company, where alliances are formed as well as joint ventures for the formation of companies through management buy-outs and buy-ins (Picot, 2002:15).

One plus one makes three: this equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value, which will give the organisation a competitive advantage. The reasoning behind M&A is that two companies are more valuable than two separate companies (Investopedia, 2006:2). M&A are an important component of a company's corporate and business strategy (Rappaport, 1986:201).

M&A are not a new occurrence with the first M&A activity dating back as far as the end of the 19th century. Since then, there have been a lot of different cyclic waves that have emerged due to the radical changes in strategic motivations. The table below identifies the time line of how M&A have developed and explains the strategic motivations of each wave (Hoang & Lapumnuaypon, 2007:10).

Table 2.1 Time line of mergers and acquisitions

WAVE	PERIOD	STRATEGIC BACKGROUND
1st Wave	1880-1904	Realisation of monopoly rents by horizontal takeovers
2nd Wave	1916-1929	Vertical integration to gain control of the complete value chain
1940s-1950s: The increase in the number of M&A deals was small and the values associated with the transaction were not significant		
3rd Wave	1965-1969	Anti-cyclical portfolio building to harmonise different industry-driven economic downturns
The 1970s: Drastic downward trend in the number of M&A announcements		
4th Wave	From 1981	‘Back to core business’ through divestures and carve-outs
	1985-1989	Speculative gains from financial acquirers (Leveraged buyouts)
5th Wave	From 1993	Increasing shareholder value and globalisation
	2000 Onwards	Talents technology and consolidation of the “New Economy”

Source: Hoang & Lapumnuaypon, 2007:10

M&A are currently in their fifth wave and one of the main features is the rise of the “mega-merger” with new corporate behemoths being formed in many industry sectors (Angwin, 2001:32). Examples of these “mega-mergers” are Glaxco & SmithKline in the pharmaceutical industry, AOL & Time Warner in the entertainment industry and in the oil and petroleum industry it is Royal Dutch Petroleum and Shell (Anon, 2007).

The literature study that follows investigates the definition and characteristics of M&A. The study then goes on to investigate the reasons why organisations pursue M&A’s and some of the reasons why they fail. The critical success factors of M&A and the challenges of cross-border M&A will also be discussed.

2.2. Mergers versus acquisitions

This section of the literature study is focused on the definition and characteristics of both M&A and it will explain the differences between a merger and an acquisition.

2.2.1. Definition of mergers and acquisitions

The terms “Mergers and Acquisitions” (or M&A) is a universal term that is used to describe the consolidation of two or more companies. M&A are usually used in the same context and used as if they are synonyms, but M&A have slightly different meanings.

According to O’Regan (2004:11), an *acquisition* can be defined as the purchase of an organisation, or to obtain operational and legal control of the organisation. The Oxford Paperback Dictionary Thesaurus & Wordpower Guide (2001:8) describes an acquisition as an accession, addition, gain or purchase. Damodaran (2002:691) defines an acquisition as where one organisation acquires the stock of another organisation and then forms a new private entity. An acquisition is also the general term used to describe the transfer of ownership (Reed, Lajoux & Nesvold, 2007).

Wanjialin (2004:245) defines a *merger* as where one company acquires all the assets of another company in exchange for stock or cash. The Oxford Paperback Dictionary Thesaurus & Wordpower Guide (2001:559) defines a merger as where two organisations combine to form one organisation. Gaughan (2007:12) defines a merger as a combination of two corporations, where the one survives and the merged corporation goes out of existence. A merger is therefore where two or more organisations combine to form a new legal and economic entity. Mergers are also defined as any combination that forms one economic unit from two or more previous ones (Sherman & Hart, 2006:11; Brigham & Ehrhardt, 2005:967). A merger is a narrow, technical term for a specific legal process that may or may not follow an acquisition (Reed *et al.*, 2007).

Acquisitions are often made against the wishes of the management of the acquired organisation, while a merger is a voluntary combination by the parties present (O’Regan, 2004:11).

2.2.2. Characteristics of mergers and acquisitions

The aim of this section is to identify and investigate the characteristics of M&A and to look at the different forms M&A can take.

2.2.2.1. Mergers

From a business structure viewpoint, mergers can be classified into five different categories (Investopedia, 2006:2; DePamphilis, 2009):

- A horizontal merger occurs when two direct competitors, with the same product lines and markets, combine;
- A vertical merger occurs when an organisation acquires another that is upstream or downstream, for example a cone supplier merges with an ice cream maker;
- A market-extension merger occurs when two companies with the same products in different markets combine;
- A product-extension merger occurs when two companies selling different but related products in the same market combine; and
- A conglomerate merger occurs when two companies with no common business areas combine.

Mergers can also be divided into two mergers according to the way it is financed. Each has certain implications for both the companies and investors involved (Damodaran, 2002:692):

The first type of merger is a purchase merger, where one company purchases another. The purchase is made with cash or through some kind of debt issue. Taxes are charged on the sale of the company, and this merger is preferred by acquiring companies because of the tax benefit for them. This can be done by setting the profits against the losses of the acquired company (Damodaran, 2002:692).

The second type of merger is a consolidation merger, where both companies are bought and combined under a new entity (Reed *et al.*, 2007).

2.2.2.2. Acquisitions

Companies use acquisitions to seek economies of scale, efficiencies and enhanced market, but there is no exchange of inventory or consolidation as a new company is formed (Sherman & Hart, 2006). There are several ways in which a firm can be acquired by another firm. In a tender offer, one firm would offer to buy all the remaining inventory of the target company at a specific price, and this offer will be communicated to the relevant stockholders (DePamphilis, 2009). The acquired firm will continue to exist as long as there are minority stockholders that refuse the tender. Most tender offers eventually become mergers, if the acquiring firm is successful in gaining control of the target firm (Damodaran, 2002:692; Carney, 2009:10).

In a purchase of assets scenario, the company's assets are acquired by another, although the shareholders of the acquired firm need to give a formal vote for it to take place (Miller, 2008:13). Acquisitions can also be done by its own management or by a group of investors, using a tender offer. Companies often use this method in order to transform from a publicly-traded firm to a private business (Gaughan, 2007:285). If the managers are involved in the acquisition, it is called a management buyout and if the tender offer mainly comes from debt, it is called a leveraged buyout (Correia, Flynn, Uliana & Wormald, 2007). An acquisition can either be friendly or hostile depending on the behaviour of the managers involved. In a friendly acquisition, the acquisition is welcomed by the firm, whereas in a hostile acquisition, the target firm's management does not want to be acquired (Hunt, 2009: 587-595).

2.3. Reasons for mergers and acquisitions

This section of the study focuses on why companies merge or acquire other companies. When looking at the economic and finance literature of M&A, it is clear that the motive is to improve the economic performance of the company through the growth of the acquired business, the cost savings and synergies over time (Miller, 2008:11). The economic motive suggests that M&A take place to get economic gains when merging two companies (Weston & Weaver, 2001). Thereby, the value of a merged company is assumed to be higher than the sum of the value of separate companies. This motive is strongly related to the neoclassical theory of a firm, whereby firm behaviour is derived from the assumption that a firm maximises its profit or value (Correia *et al*., 2007). However, maximising profit or shareholder value is a too general motive for merger or acquisition. It does not reveal how the deal leads up to profit or value improvement. Therefore, the following possible sources of performance gains could be identified:

- *Economies of scale*: According to Finch (2008), economies of scale whereby companies can produce cheaper, are the main reason for M&A. These cost savings can include both fixed and variable costs and by eliminating intersecting costs such as administrative costs and IT expenditure, financial performances can be improved. Due to the nature of fixed costs, the potential for cost reductions is not restricted to horizontal mergers; vertical mergers have some unique sources of cost reductions, for example cost advantages can be achieved by avoiding communication and bargaining costs (Hitt, Ireland & Hoskisson, 2007). During a vertical integration, the parent company can use the targeted firm's business operations, such as access to raw materials and distribution channels to gain a competitive advantage in the market (Finch, 2008). M&A can also be used to expand a business.
- *Synergy*: The further reason why companies take on expansions is because of the potential synergistic gains that could arise from the transaction (Gaughan, 2007:14). Other synergistic combinations take place where companies have merged or acquired another company in order to gain operating synergy in the form of high growth and lower costs (Gaughan, 2007:126). Companies merge or acquire because one firm has excess cash flows, whereas the other company has large investment opportunities, but does not have the cash flows to use these opportunities. Combining these two firms may result in economical benefits, due to the lower costs involved in internal financing as opposed to external financing (Myers & Majluf, 1984).
- *Time to market*: An alternative to economies of scale is to extend a product line in the company. The buyer will have more financial benefits, if it takes over an existing company and its technologies, than to develop the product independently (Miller, 2008:11).
- *Market power:* M&A are used to achieve market power, and if the M&A are large enough, the company can obtain a monopoly-like position in terms of

above-normal profits. If large economies of scale exist, a big company may set its costs above marginal cost but below the level that would lead to entry. Large M&A can also lead to an entry barrier for potential competitors or to eliminate current competitors (Kode, Ford & Sutherland, 2003:28).

- *Replacements of assets:* Companies may also be considered as acquisition targets because the costs of replacing their assets are considerably higher than the market value of the proposed target. An example of this is where oil companies could acquire reserves cheaper by buying other oil companies than by exploring alternative drilling opportunities (Brigham & Ehrhardt, 2005:843).
- *Market for corporate control:* When the resources of a company are poorly managed by managers and this leads to poor performance, the threat arises that the company might be taken over (Jensen, 1988). After the takeover, the inefficient managers will be replaced by value maximising managers, because the acquirer assumes that economics gains can be achieved by replacing the inefficient management with more efficient persons (Miller, 2008:12).
- *Tax savings*: A further reason why companies merge with others is because of the possible tax advantages associated with the transaction (Brigham & Ehrhardt, 2005:842). For example, a high profitable organisation can acquire an organisation with large accumulated losses and offset those losses against their taxable income, which will reduce its tax liability (Correia *et al*., 2007).
- *Defensive acquisitions*: When businesses are faced with severe downturn in operations, acquisitions can also be used to counter the economic downturn in the business (Miller, 2008:12). An example is a drug company that has substantial marketing power, but runs out of patent protection on its key drugs. The solution may be to acquire a company with a drug that shows potential and then put it into its own powerful marketing channel.
- *New and better management:* Managers may not act in the best interest of shareholders because they may be incapable, inexperienced or just too lazy to do the work. An acquirer might think that if he replaces the management the value of the business might be increased (Miller, 2008:11).

2.4. Reasons for the failure of mergers and acquisitions

Organisations have rapidly increased the use of M&A projects in order to support their corporate strategies. Well-structured studies show that 50-70% of acquisitions actually destroy shareholder value instead of achieving cost/revenue benefits and that mergers fail because of bad integration (Gadiesh, Ormiston, Rovit & Critchow, 2001:188). According to Jennings (1985:37) and Haransky (1999:13), the firm's rush to find a quick "fix" through M&A has caused failure in many deals that should have succeeded and in some other cases. The failures of M&A can be divided into five root causes, which are: (1) poor understanding of the strategic levers, (2) overpayment for the acquisition, (3) inadequate integration of planning and execution, (4) the lack of executive leadership and strategic communication, and (5) a severe cultural mismatch (Gadiesh *et al.*, 2001:188). Hunt (2009:721) summarises that M&A fail because of insufficient planning, structuring and execution of the transaction.

Several researchers found the reasons why M&A fail are because managers ignore the potential clash of cultures (Bligh, 2006; Grotenhuis & Weggeman, 2002:84). Schreader and Self (2003) identify culture as the make or break factor in the merger equation. Cultural mismatches during the merger and acquisition process are a major reason for failure (Richard, 2008:27). During the merger of Geigy and Sandoz, from where the new pharmaceutical company Novartis arose, there was a cultural shock among the personnel (Stahl & Sitkin, 2004). The result was that the overall performance of the company decreased because the employees of the acquired company felt fear, betrayal and anger. The Norvatis example shows that cross-border M&As suffer from performance problems due to cultural differences (Morosini, Shane & Singh, 1998). During international M&As, people with different norms, values and beliefs are brought together (Hofstede, 2001). These differences are evident in the different languages they speak, their dress codes and their behaviour, which can present a barrier between two foreign groups (Olie, 1994). The national and corporate cultures each have an effect on the post-merger process (Weber, Shenkar & Raveh, 1996). The larger the national cultural distance between the acquirer and the acquired becomes, the bigger the difference in their operating activities becomes (Slangen, 2006:162). The differences in national culture, as characterised by Hofstede, anticipate stress and negative attitudes towards M&A (Hofstede, 2001). This corresponds in particular to the variables individualism, uncertainty avoidance and masculinity. Angwin and Savill (1997) found that approximately 60% of managers consider national culture as a risk factor for cross-border M&A. M&A can fail during two phases due to the differences in national culture: the pre-acquisition phase and the post-acquisitions phase.

In the *pre-acquisitions* phase, the cultural distance plays an important role when a company decides to merge or acquire another company. Factors such as distance, differences in law, language, political issues, ways of doing business, management styles, ways of thinking, values and basic assumptions play key roles in the success of the integration process (Lees, 2003). Individualism is important when defining the preference for acquisitions – individualistic societies tend to be more opportunistic, so they tend to acquire companies (Hofstede, 1980; Shane, 1992). The decisions in the pre-acquisition phase depend on the perception that one has of other cultures, the experience of other cultures and how other cultures are understood and the geographical and sociological distance between cultures.

During the *post-acquisition* phase, integration plays an important role in order to fight the resistance against change. The integration process can be successful when the employees are involved in the process. This can be done by participating in activities (e.g. visits, joining retreats and celebrations) and this will help them to overcome their prejudice and to better understand the cultures (Larsson & Lubatkin, 2001). The way in which people/employees tolerate the people/employees from other cultures, will determine whether cultural conflicts arise or not (Stahl & Sitkin 2004).

Management can motivate employees to overcome their attitudes, beliefs and prejudice towards other cultures (Hoetzel, 2005). Calori, Lubatkin and Very (1994) found that the higher the efforts to motivate and control the employees are, the more successful the acquisition will be. This is why the success of M&A also depends on the skills of the manager to integrate the different cultures. A human resource expert can help to reduce the risk that is associated with the integration process (Richard, 2008:28). According to Grotenhuis and Weggeman (2002), culture is the key variable in the success of cross-border M&A.

The researcher also emphasises that the lack of integration and evaluation of post-transaction performance also leads to failure. Mismanagement, false communication, prejudices and misunderstanding cultural arrogance lead to bigger cultural differences and cultural conflict. This will be the result of the different languages, traditions, rules and opinions of the two foreign groups. That is why special attention needs to be given to culture during acquisitions, otherwise the cultures will clash and this will lead to failure (Richard, 2008:27).

2.5. Key success factors in mergers and acquisitions

Critical success factors (CSFs) can be defined as the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organisation (Rochart, 1979:84). CSFs can be viewed as a useful tool to assist companies in achieving successful outcomes; but even if all the critical factors are present, a merger or acquisition can fail from uncontrollable factors. Turner (2004:349) stated that if the organisation can effectively identify the CSFs and control them, the success of the M&A will be greatly increased. The M&A team can apply this framework to improve their performance and potential success (Chen, 1999:83-91) and invest their efforts in focusing on critical success factors rather than non-critical success factors (Zwikael & Globerson, 2006:3433). The above-mentioned can also be used to establish performance indicators for assessing the M&A process (Andersen, Birchall, Jenssen & Money, 2006:127).

In an early study by Rockwell (1968:121-132), he identified four important factors in planning, namely identifying merger objectives, specifying gains for owners, checking management ability and seeking a good fit. Some years later, Jennings (1985:37) also placed importance on the planning stage and states that planning an acquisition strategy can help to avoid poorly matched partners from merging and it will also maximise the potential for success. Jennings noted that in a successful M&A, the M&A programme of the acquiring company is well structured, with comprehensive acquisition criteria, backed up by comprehensive analysis of various factors/areas, and proactive candidate identification and contact. More recent researchers have identified various CSFs, such as effective communication throughout the M&A process, clear goals, reasonable time frame, top management commitment and support, competency of the project team, flexible and comprehensive integration plan, learning organisation, and manager capabilities (Schreader & Self, 2003:511; Gomes, Donnelly, Morris & Collins, 2007). DiGeorgio (2002:128, 2003:259) classifies the success of M&A into two stages. The first stage is called the front-end success, where the right target for the M&A is chosen, which consists of elements such as characteristics of leadership, the facilitating climate within the stakeholder team, adequate time, resources and tools for M&A analysis, possessing learning mechanisms and understanding culture and organisational structure differences entailed in the analysis. The second stage is called the integration success, where the outcome is to achieve the objectives, which consist of selecting the right leadership, structuring the integration team and a detailed plan in terms of communication, integration and people issue. Morosini *et al.* (1998) and Grotenhuis and Weggeman (2002) consider process management to be a critical factor in the success of cross-border mergers and acquisitions.

The key success factors in cross-border acquisitions are the business environment, deal motives, deal strategy, processing of the deal, leadership, organisational culture, and national culture. The key success factors discussed below were based on the following case study represented by fictitious names: Three Israeli and an international conglomerate American-based company participated in the study. The three Israeli companies were either partially or fully acquired by the American company AMERIGROUP. ISRASOUND and MEDITECH were in the medical imaging industry, while EZYZCAR is in financial services for car sales and leasing. The reason why these Israeli companies were chosen was because the same American company was involved in all three cases and this allowed for the three companies to be compared while the foreign partner was the constant. The three companies had different success factors and the success was measured by the evaluation of the deal by top managers of all the participants involved (Erez-Rein, Erez & Maital, 2004:26-27). The success factors were:

- The *business environment* (BE): This is the local geopolitical, economic, social, and cultural environment in which the deal takes place. The environment will define the potential benefits and limitations of the business, for example legislative restrictions (Erez-Rein *et al.*, 2004:30). In the EZYCAR case, the local legislative restrictions limited the investment opportunities for capital recruitment for the Israeli company.

- The *deal motive* (DM): The aspired outcome of the deal from the participant's point of view can be defined as the deal motive. If the deal motives that are set by management are reached, then the acquisition will be seen as a success (Erez-Rein *et al.*, 2004:30). In the case of ISRASOUND, the Israeli parent organisation (INVESTECH) wanted to achieve a high exit and when this was achieved, it was considered to be a success.
- The *deal strategy* (DS): This strategy is very important in establishing the structure of the deal, and also relates to the strategy that is followed during the transactions (Erez-Rein *et al.*, 2004:30). This is the least complex of all the factors. The objective factor that describes the structure of the deal may be comprehended differently by the partners. In the EZYCAR example, the deal was seen as an investment by AMERICAP, whereas it was seen as a potential acquisition by EZYCAR. Both parties understood the deal strategy, but seeing it as an investment and potential acquisition, there was a different time perspective (Long vs. Short). The way in which the deal strategy is comprehended had a definite effect on the behaviour of the parties present.
- The *processing of the deal* (PoD): This process is done by management as the deal is being implemented (Erez-Rein *et al.*, 2004:30). In the EZYCAR deal there were widespread misunderstandings, inconsistent management, and an overall negative atmosphere of interactions.
- The *leadership*: Leadership is the role that different levels of management play during the deal (Erez-Rein *et al.*, 2004:30). Different levels of management have different roles in the various stages of the transaction. During an M&A, there are the individuals in managerial roles that design the deal, implement it, and are affected by it. The characteristics of the individual and the teams they choose to help them will have an effect on the progress and success of the deal. The proactive leadership from the CEO of ISRASOUND and his team and the calculative risks that were taken on behalf of the CEO of AMERIMED ULS, led to the realisation of the hidden value of the deal.

- The *organisational and national culture* (CU): The cultural differences between parties during a cross-border acquisition are as a result of the organisational and national cultures in the organisation. This is why the cultural differences between the parties represent both national and organisational factors.

2.6. Challenges in cross-border acquisitions

In order for a cross-border acquisition to be successful, there are a number of challenges that need to be overcome. These challenges include the evaluation of acquisition targets, to deal with the cultural differences, overcoming institutional distances, to avoid excessive premiums being paid, prevailing over the liabilities of foreignness and understanding the different strategic directions of the companies. In order to find an appropriate target firm and for an acquisition to be successful, there needs to be a due diligence process. Due diligence is a very complex process in all M&As (Hitt, Harrison & Ireland, 2001), but this process is further complicated by cross-border acquisitions (Angwin, 2001). For example, when a foreign country's assets are evaluated, the process is complicated by the fact that each country often has its own general accepted accounting practices and exchange rates.

The assessment of the environmental conditions in which the company needs to operate is important because there may be government regulations with which the company needs to deal with in an efficient way. The due diligence process in evaluating acquisition targets in cross-border acquisitions needs to be of high importance for the managers (Briscoe & Schuler, 2004:94; Bruner, 2004:207). A second potential challenge is the post-merger integration process. It does not matter if it is a domestic or a cross-border acquisition, the post-merger integration process will provide potential problems during the acquisition (Hitt & Pisano, 2004). The challenges of integration are affected by the cultural differences, the institutional distance between the firms and the different strategic goals of the two firms. There is a cultural problem during the cross-border acquisition, because the two firms both have separate corporate and national cultures that need to be integrated with each other (Frankel, 2005:58). The level of cultural conflict will thus depend on the integration that is necessary between the firms (Nahavandi & Malekzadeh, 1988).

During a cross-border acquisition, corporate cultures will clash, and if two companies from different markets join, these clashes will be increased (Khanna & Krishna, 2010). Weber *et al*. (1996) also found that different corporate cultures will affect the relationship between the managers of the firms. The cultural and institutional environment in which firms operate has a major effect on the development of strategic goals and how they are applied by the managers of the different firms (Hitt & Pisano, 2004). The joint venture that failed during the late 1980s between GM and Daewoo was because there were differences in the strategic goals between the Korean and US managers (Hitt & Pisano, 2004). The US managers placed strong importance on financial returns, whereas growth was more important to the Koreans. Daewoo (Koreans) wanted to expand the joint venture to achieve better growth, although they were making losses. However, the managers of GM wanted to reduce operations in hopes of earning a net profit. These differences led to the termination of the unsuccessful joint venture and substantial losses were made by both firms (Hitt & Pisano, 2004). The strategic goals also include the manner in which a manager takes risks. The difference in the level of risk-taking between two managers can have a major effect on the success of the acquisitions (Pablo & Javidan, 2002). For example, if the one firm's managers have a high level of risk taking, while the other firm's managers have a more conservative approach to risk taking, then there will be conflict in the types of strategies and actions that are desired by the sets of managers.

Cross-border acquisitions give firms the opportunity to learn new knowledge from the acquired firm. The differences in the knowledge bases can also lead to problems for the managers. When the knowledge bases are substantially different, neither firm may have the appropriate absorptive capacity to learn about the knowledge of the other firm (Cohen & Levinthal, 1990). When this happens, learning may only occur where managers in each firm manage the transfer of the knowledge (Tsai, 2001). The integration process is an important part of the organisational learning, if the barriers and challenges of the cross-border acquisition are overcome. The liability of foreignness is also an important challenge in a cross-border acquisition (Zaheer & Mosakowski, 1997). The liability of foreignness includes certain unavoidable costs that companies from the home country do not incur. These costs arise from higher coordination, lack of knowledge of the local market, lack of relationships in critical networks (i.e. political) along with cultural differences and institutional distance. Foreign firms competing against local domestic firms have certain competitive disadvantages and also have to incur extra costs (Miller & Parkhe, 2002). In order to overcome the challenges of cross-border acquisitions, experience and knowledge are required from managers. The managers also need to be effective in what they do.

2.7. Summary

Mergers and acquisitions and other types of corporate restructuring are a big part of the corporate finance world. In terms of the global M&A's, the third quarter of 2010, was the busiest quarter in two years, with $562.6 billion or R3.9 trillion of announced takeover transactions during the period (Foley & McCracken, 2010). The key principle behind buying a company is to create shareholder value, which will give organisations a competitive advantage. The terms "Mergers and Acquisitions" (or M&A) is a universal term that is used to describe the consolidation of two or more companies, but M&A does have different meanings. An acquisition has been defined as the purchase of an organisation, or to obtain operational and legal control of the organisation, while a merger is defined as where one company acquires the assets of another company in exchange for stock and, when looking at the economic and finance literature of M&As, it is clear that the motive of a M&A is to improve the economic performance of the company.

The main reasons for M&A are economies of scale, whereby companies can produce cheaper or the potential synergistic gains that arises from the transaction. Companies also find it cheaper to acquire existing companies, their products and technologies than to develop it themselves. M&A are also used to achieve market power, to counter the economic downturn in the business and to improve the management structure of the company or to get possible tax advantages associated with the transaction. Although mergers and acquisition are very popular research indicate that 50-70% of acquisitions actually destroy shareholder value instead of financial benefits. The reasons why mergers and acquisition fail are because of insufficient planning, structuring and execution of the transaction. The cultural mismatch during M&A and the fact that management ignore the potential clash of cultures are the main reasons why cross-border M&A fail. Integration plays an important role in order to fight the resistance against change and insufficient integration will lead to failure. There are several challenges that are also associated with M&A. These challenges include the evaluation of acquisition targets, to deal with the cultural differences, overcoming institutional distances, to avoid excessive premiums being paid and to overcome foreignness and to understand the different strategic directions of a company. In order to find an appropriate target firm, there needs to be a due diligence process, which is complicated by a cross-border acquisition.

The challenges and failure of M&A can be minimised if there are critical success factors present. If a company can identify critical success factors and control them, the success of M&A will be greatly increased. The critical success factors can also be used to establish performance indicators for assessing the process. The key success factors in cross-border acquisitions are the business environment, deal motives, deal strategy, processing of the deal, leadership, organisational culture and national culture.

CHAPTER 3

3. CULTURAL CONSIDERATIONS IN THE BUSINESS ENVIRONMENT

3.1. Introduction

Some cultural differences originated more than 100 years ago and make cultural reconciliation very difficult. What is acceptable, logical and rational in one culture, might be very different in another culture (Minkov, 2007). Culture can be defined as a belief system that is deeply embedded within the society and is reflected in the behaviour of its organisations and people (McDermott & O'Dell, 2001). The Oxford Paperback Dictionary Thesaurus & Wordpower Guide (2001) defines culture as the art, background, education, learning traditions, and the way of life. National cultural distance can be defined as the extent to which the shared norms and values in one country differ from those in another (Hofstede, 2001). Doupnik and Tsakumis (2004) stated that cultural factors have a direct influence on a nation's development of accounting and financial reporting systems. Gray argues that shared cultural values within a country lead to shared accounting values, which in turn influence the nature of a country's accounting system (Doupnik & Tsakumis, 2004).

3.2. Hofstede's approach to cultural dimensions

Hofstede's VSM questionnaire was designed for a large-scale study of work-related attitudes of 116,000 IBM employees in over 50 countries and three regions. It is sufficient to state that Hofstede related the first four of these constructs to the basic sociological concepts of the (1) self; (2) relationship to authority; (3) control of aggression and (4) gender role differentiation, respectively (Hofstede, 2001). Hofstede's cultural values can be described as follows:

3.2.1. Power distance index

The basic premise of the power distance index (PDI) is how human inequality is handled by different societies (Hofstede, 2001; Orr & Hauser, 2008). Inequality occurs in different areas, such as prestige, wealth and power and these areas are given different weights of status by different societies (Mead, 2005:39). In a high-power distance culture more importance will be placed on status, rank and high centralised power (Samovar, Porter & McDaniel, 2009:203). In a low power-distance culture people are not focused on social roles and being associated with a certain group (Macinnis, Park & Priester, 2009:237). Inside the organisation, inequality in power is unavoidable and is functionalised by boss-subordinate relationships. Human pecking orders are part of humans' existence and they vary from one society to another (Samovar *et al*., 2009:203).

3.2.1.1. Inequality in organisations

Within every organisation, there will be differences in the ability of members and in the power levels of individuals. Inequality of power in the organisation is very important because it provides the control factor and helps to overcome the law of entropy (Hofstede, 2001:82). In most organisations, power is distributed in the form of hierarchies and the hierarchical pyramids are built on the relationship between a boss and a subordinate (Hofstede, 2001:82). In organisations with high-power distance, the boss considers himself to be different from his subordinates, whereas in a low-power distance, the boss tries to look less powerful than he really is (Samovar *et al*., 2009:203-204). The way in which power is exercised in the hierarchy relates to the value system of both the boss and the subordinate and not only to the values of the boss (Hofstede, 2001:82). The boss-subordinate relationship is a basic human relationship, which bears a resemblance to relationships earlier in life such as the relationship between a parent and child and a teacher and pupil. People (bosses and subordinates) can be expected to carry over values and norms from their early life experiences as a child or pupil (Hofstede, 2001:82). Each culture has its own family and school environment, so we can expect to find traces of these differences in the exercise of power in the hierarchies.

3.2.1.2. The concept of power distance

The Oxford Dictionaries Online (2010) defines power as the capacity/ability to determine/direct the behaviour of others or the course of events. Power distance is the degree of inequality in power between a less powerful individual (I) and a more powerful other (O), and both these belong to the same social system. Some hypotheses that were discovered for power distance are as follows (Mulder, 1977; Hofstede, 2001):

- The exercise of power will give satisfaction.
- The power distance between the more powerful individual and the less powerful individual will be maintained or increased.
- The greater the distance becomes between the more powerful and less powerful person, the need to increase the distance becomes stronger.
- The less powerful individual will strive to reduce the power distance between himself and the more powerful individual.
- The smaller the distance becomes between the less powerful person and the more powerful person, the stronger the need becomes to reduce the power gap between the individuals.

The need for power striving is fed by satisfaction and not by dissatisfaction. It is showed that individuals with more power tend to devalue the work that is done by less powerful individuals. More powerful individuals tend to take credit for work that is done by the less powerful individual (Hofstede, 2001).

3.2.1.3. Power distance in work and organisations

Looking at organisations in different countries, there are a number of different solutions to the same problem. It suggests that with all other factors being equal, organisational structures and management processes vary among countries (Hofstede, 2001). In cultures with high power distance, the view is that some people are meant to be in command and others are meant to be followers, and managerial authority tends to be more concentrated in these cultures (McFarlin & Sweeney, 2006:122). In cultures with low power distance, there are fewer levels of management and the relationship between the boss and the subordinate is a trusting relationship (McFarlin & Sweeney, 2006:123). A team of researchers originally located at the University of Aston in Birmingham, England, found that the two main dimensions that varied were the concentration of authority (includes centralisation) and the structuring of activities (includes standardisation and formalisation) (Hofstede, 2001). The Power distance index is clearly related to the “concentration of authority”. Table 3.1 below high-lights some of the key differences between low and high PDI societies.

Table 3.1 Key differences between Low- and High-PDI societies in the work situation

Low PDI	High PDI
Decision structures are decentralised and there is less “concentration of authority”.	Decision structures are centralised and there is more “concentration of authority”.
Flat organisation pyramids.	Tall organisation pyramids.
The proportion of supervisory personnel is small.	The proportion of supervisory personnel is large.
The hierarchy in the organisations means that there is inequality of roles, established for convenience.	The hierarchy in the organisations reflects the existential inequality between higher-ups and lower-downs.
The ideal boss is a resourceful democrat, he/she sees himself/herself as practical, orderly, and he/she relies on support.	The ideal boss is a well-meaning autocrat or a good father; he/she sees himself/herself as a benevolent decision-maker.
Managers rely on personal experience and subordinates.	Managers rely on formal rules.
Subordinates expect to be consulted.	Subordinates expect to be told what to do.
Consultative leadership leads to satisfaction, performance and productivity.	Authoritative leadership and close supervision lead to satisfaction, performance and productivity.
Subordinate-superior relations are pragmatic.	Subordinate-superior relations are polarised, and are often emotional.
Institutionalised grievance channels are in place, for power abuse by the superior.	No defence against power abuse by superior.
Innovations need good champions.	Innovations need good support from hierarchy.
Managers are involved in relevant purchasing decisions.	Managers are not involved in relevant purchasing decisions.
Managers feel as if they are adequately	Managers feel they are being underpaid.

paid.	
Information is openly available, even to non-superiors.	Information is constrained by the hierarchy.
Managers are satisfied with their career.	Managers are dissatisfied with their careers.
There are possibilities available to escape from role ambiguity and overload.	There are frequent role ambiguity and overload.
The difference in salary between top and bottom positions is small.	The difference in salary between top and bottom positions is big.
The manual workforce has the same status as the clerical workforce.	White-collar jobs are valued more than blue-collar jobs.
Subordinates are influenced by bargaining and reasoning, MBO is feasible.	Subordinates are influenced by formal authority and sanctions, MBO cannot work.

SOURCE: Hofstede, 2001: 107-108

3.2.2. Uncertainty Avoidance Index

Uncertainty about the future is part of being human and we have to cope through the changes of technology, law and religion. Avery *et al*. (2008) define the Uncertainty Avoidance Index (UAI) as the manner in which a society accepts uncertainty and doubt. Uncertainty can be defined as a situation in which the outcomes of the actions are unknown or cannot be estimated (O'Regan, 2004; McLeod & Hanks, 1985:1274).

3.2.2.1. The concept of uncertainty avoidance

In our everyday life, we live in a future that moves away as fast as we try to approach it**,** but we still project our present hopes and fears on this uncertain world. We as humans are well aware of the uncertainty we live with everyday (Hofstede, 2001:145). Humans have developed ways in which to cope with these uncertainties, such as technology, law and religion (Hofstede, 2001:146). Anxiety and stress are symptoms of extreme cases of uncertainty (Samovar *et al*., 2009:202). Technology includes all human artefacts, law, and all formal and informal rules that guide the behaviour of humans, and religion includes all the knowledge of the unknown.

Technology has helped us to defend ourselves against uncertainties caused by nature; law to defend against uncertainties in the behaviour of others while religion is to accept the uncertainties that we cannot defend ourselves against (Hofstede, 2001:146). These defences are intended to create certainty, which is not possible, but it lets us sleep peacefully at night. Different societies are dealing with uncertainty in their own unique way. Intercultural communication is influenced by the differences in uncertainty avoidance, for example in a high-uncertainty avoidance culture student's would want a structured learning situation with right answers as opposed to an unstructured learning situation for low-uncertainty avoidance cultures (Samovar *et al*., 2009:202).

3.2.2.2. Uncertainty avoidance in organisations

According to Cyert and March (2005), organisations avoid uncertainty in two major ways: firstly, they avoid the events that they correctly anticipated in the future by using short-run reactions and feedback instead of long-term events. They solve processing problems rather than developing long-run strategies. Secondly, they avoid anticipated future reactions of other parts of the environment by arranging a negotiated environment. They impose plans, standard operating procedures, industry tradition and uncertainty-absorbing contracts on a specific situation (Samovar *et al*., 2009:202). Organisations use technology, rules and rituals to avoid uncertainty. Using technology, such as replacing people with computers will create short-term predictability, but it is extremely rational. Although we have better technology to defend us against risks, we are still uncertain about the future (Hofstede, 2001:147). Rules are the way in which organisations reduce internal uncertainty, which is caused by the behaviour of stakeholders. Rituals serve social as well as uncertainty avoidance purposes. Rituals are functional because they allow members of a society to continue their lives in an uncertain world (Hofstede, 2001:147). In organisations with low uncertainty avoidance, more risks will be taken and the managers are of a lower age in higher level jobs (Mead, 2005:43). In organisations with high uncertainty avoidance, the people will go to great lengths to create a stable and predictable working environment and they tend to take fewer risks and personal initiatives (McFarlin & Sweeney, 2006:123). Table 3.2 below high-lights some of the key differences between low and high UAI societies in the workplace.

Table 3.2 Key differences between Low- and High-UAI societies in the work situation

LOW UAI	HIGH UAI
Weak loyalty to employer, the duration of employment is short	Strong loyalty to employer, the duration of employment is long
Preference for smaller organisations	Preference for larger organisations
Scepticism towards technological solutions	Strong appeal of technological solutions
Innovators feel independent of rules	Innovators feel constrained by rules
Renegade championing	Rational championing
Top managers involved in strategy	Top managers involved in operations
Power of superiors depends on position and relationships	Power of superiors depends on control of uncertainties
Tolerance of ambiguity in structures and procedures	High formalised conception of management
Appeal of transformational leader role	Appeals of hierarchical granted
Many new trademarks granted	Few new trademarks granted
Innovations welcomed, but not necessarily taken seriously	Innovations resisted, but, if accepted, applied consistently
Precision and punctuality have to be learned and managed	Precision and punctuality comes naturally
Relationship orientation	Task orientation
Flexible working hours not appealing	Flexible working hours popular
Belief in generalists and common sense	Belief in specialists and expertise
Superiors optimistic about employees' ambition and leadership capacities	Superiors pessimistic about employees' ambition and leadership capacities

SOURCE: Hofstede, 2001: 169-170

3.2.3. Individualism and collectivism

Individualism versus collectivism describes the relationship between the individual and the collectivism that prevails in a specific society (McFarlin & Sweeney, 2006:121). Individualism can be defined as where an individual is suppose to look after themselves, while collectivism is when an individual is part of a group and they look after each other in exchange for loyalty (Orr & Hauser, 2008).

3.2.3.1. Individualism in organisations and organisation theories

The relationship between a person and the organisation to which he or she belongs to strongly depends on the degree of individualism or collectivism from its members (Mead, 2005:44). The level of individualism or collectivism in a society will affect the reason for complying with the organisation's requirements. Large power distance and collectivism usually go together in most, but not all, societies (Hofstede, 2001). In an individualistic culture, the individual is the most important aspect of the society/organisation and independence is very important. An individual is also rewarded for his success and the unique characteristics of the individuals are of paramount value (Samovar *et al*., 2009:199). Individualism includes an economic element where an individual achieves things by competing and an expressive element where the individuals want to be seen as a unique person (McFarlin & Sweeney, 2006:121). Factors such as the educational level of employees, the history and culture of the organisation will influence the degree of individualism in the organisation (Hofstede, 2001:213). Collectivist cultures emphasise "we" and an individual's identity is based on the social system to which it belongs (Mead, 2005:44). Collectivism also includes economic and expressive elements. The economic element is where the members of the group share their resources and the expressive element is where the members of the group are emotionally involved with each other (McFarlin & Sweeney, 2006:121). The collective patterns in a traditional society will limit the possibilities of transferring technologies. This is one of the dilemmas of the economic development of poor countries, but it can be fixed by the "intermediate" or "appropriate" transfer of technologies that are better adapted to the existing collectivist societies. Another solution is to allow collectivism and modern technology to coexist, through the local design of political and organisational structures (Hofstede, 2001:213).

3.2.3.2. *Individualism and collectivism in the work situation*

Employees in an individualistic culture should act rationally according to their own interests and their work should be organised in such a way that their self-interest and the employer's interest coincide (Samovar *et al*., 2009:200-201). In a collectivist culture, an employee belongs to an in-group and he/she will act according to the interests of the in-group and not to his/her own individual interests (Mead, 2005:44). In a collective culture, an employee will always hire an individual that is part of the in-group. When hiring an individual, preference would be given to relatives of the employer or to persons already employed at the organisation. Hiring a person from a family that you already know reduces risk, and the misbehaviour of family members can be easily corrected (Hofstede, 2001). In an individualistic culture, family relationships at work will be minimal, as it could lead to nepotism and conflict of interest. Some companies have a rule that if two employees get married, one of them should leave the organisation (Hofstede, 2001:236). In a collective society, the employer-employee relationship is seen as a family relationship, with mutual obligations of protection in exchange for loyalty. An employer will not dismiss an employee because of poor performance: One does not dismiss one's child, but performance and skills do determine what tasks an employee does. In an individualist society, the relationship between employer and employee is a business transaction, and poor performance can lead to termination (Hofstede, 2001:237). In a collectivist society, one's friends and employer are predetermined by the social context. In an individualist society, both are a matter of personal choice and source of greater affect. In a collectivist society the personal relationship prevails over the task and over the company and should be established first. In contrast, in an individualist society, the task and the company are supposed to prevail over any personal relationships (Mead, 2005:44). When considering the South African situation, it is found that individualism and collectivism differences also operate within countries (Orphen, 1982). Orphen (1982) reported in a comparison that peer and leader support was much more important to black people than to white people. Table 3.3 below high-lights some of the key differences between collectivist and individualist societies in the work situation.

Table 3.3 Key differences between collectivist and individualist societies in the work situation

Low IDV	High IDV
Employees act in the interest of their in-group, not necessarily of themselves	Employees are supposed to act as "economic men"
The hiring and promotion decisions take employees within the in-group into account	The hiring and promotion decisions should be based on skills and rules only
Relatives of the employer and employees are preferred in hiring	When hiring family, it is seen as an disadvantage
Employer-employee relationship is moral, like a family link	Employer-employee relationship is a business deal in a "labour market"
Poor performance is a reason for doing other tasks	Poor performance is a reason for dismissal
The commitment of the employee to the organisation is low	The commitment of the employee to the organisation is high
The employees perform at their best when in the in-group	The employees perform at their best as individuals
Training is most effective when done at group level	Training is most effective when it is focused on the individual
The preferred allocation for reward is based on equality for the in-group, and equity for the out-group	The preferred allocation for reward is based on equity for all
Relationships with their colleagues are cooperative for in-group members, and hostile for out-group members	Relationships with their colleagues are not dependent on their group identity
Treating friends better than others is normal and ethical	Treating friends better than others is nepotism and unethical: universal
Within the business context, personal relationships prevail over the tasks and the company	Within the business context, tasks and the company are more important than personal relationships
Belief in collective decisions	Belief in individual decisions

The innovation champions in the organisation want to involve others	The innovation champions of the organisation want to venture out on their own
Innovations are done within the existing networks	Innovations are done outside the existing networks
Entrepreneurs claim the contribution of others for their results	The entrepreneurs claim their own results without depending on other people
The employees and managers report teamwork, personal contacts and discrimination at work	Employees and managers report working individually

SOURCE: Hofstede, 2001: 244

3.2.4. Masculinity and femininity

The duality of the sexes is a fundamental fact with which different societies cope in different ways (Hofstede, 2001:279). Masculinity and femininity illustrate how the roles of men and women differ in a society (Orr & Hauser, 2008). Surveys on the importance of work goals showed that almost all women attach more importance to social goals, such as relationships, helping others and the physical environment and that men are more interested in ego goals, such as careers and money (Samovar *et al*., 2009:206). The IBM database revealed that “feminine” versus “masculine” work goals varied across countries as well as occupations. In the IBM study, 116,000 employees from 50 countries and three regions were used to compare the employees’ values relating to their employment setting across countries by means of a questionnaire (Mead, 2005:39).

3.2.4.1. Absolute, statistical and social sex differences

The only absolute difference between women and men is that women bear children and men beget them. The biological differences between men and women are more statistical rather than absolute: Men are on average taller and/or stronger and women have on average greater figure dexterity (Hofstede, 2001:279). Sex roles are sharply distinguished in masculine cultures (Mead, 2005:46). Feminine societies uphold that men need to be self-confident and that they can participate in nurturing roles. This will encourage sexual equality and that people and the environment are important aspects of life and not just money and things (Samovar *et al*., 2009:206). Margaret Mead suggested that the dominant concern for achievement in men is related to the fact that men cannot bear children and she argued that women attain a "sense of permanent achievement" when giving birth (Mead, 2005). Men are supposed to be assertive, competitive and tough, while women are supposed to be more concerned with taking care of the home, children and people in general. The pattern of male assertiveness and female nurturance leads to male dominance at least in matters of politics and economic life, and within households (Hofstede, 2001:280).

3.2.4.2. Gender differences in goals

There are several differences when the answers of men and women are compared on how important work goals are to them. Hofstede's first edition of Culture's Consequences (Hofstede, 1984) led to the following conclusions:

1. Gender differences in the importance of work goals may easily be confounded with educational and/or occupational differences. Goals may differ by gender and occupation, but occupational differences outweighed gender differences.
2. Women tend to find interpersonal aspects, rendering services and the physical environment more important than advancement, independence, responsibility and earnings. There were no differences in job content between men and women, although they might value different detail aspects.

In the IBM survey, the following significant gender difference trends appeared:

1. More important to men
    - Advancement
    - Earnings
    - Training
    - Up-to-datedness

2. More important to women
    - Friendly atmosphere
    - Position security
    - Physical conditions
    - Manager
    - Cooperation

There were no significant gender differences in job content goals (challenge, use of skills) or for private life goals (personal time, desirable area).

3.2.4.3. Masculinity and femininity in the workplace

Cultural differences along with the masculinity and femininity dimensions have an effect on the meaning of work in people's lives. Masculine societies place importance on pay, security and job content and feel that men are more suitable for positions of power. These cultures also strive to be high performers in their work situations (McFarlin & Sweeney, 2006:121; Gibson, 1995). Feminine cultures emphasise relationships with people, equality and harmony between men and women in the workplace and taking care of children and less fortunate people (McFarlin & Sweeney, 2006:121, Gibson, 1995). The above characteristics from feminine and masculine cultures tend to be carried over from their homes to the school and to the work environment (Hofstede, 2001:312). Some jobs, such as police officers, soldiers, doctors, secretaries, nurses and pharmacists have been stereotyped as being either "masculine" or "feminine", but these differ from country to country and from organisation to organisation and even over time (Hofstede, 2001:312). Jobs that are considered feminine often enjoy lower status and pay and there seem to be more equal opportunities for women, at least in wealthy societies. In feminine cultures, the manager is seen as an employee just like any other. Masculine and feminine cultures create different management hero types. The masculine manager is assertive, decisive and "aggressive" and here it is the survival of the fittest. The manager in a feminine culture is less visible, intuitive rather than decisive, and accustomed to seeking consensus and it is a cooperative venture. Masculine and feminine cultures do have something in common. They both believe that managers should be resourceful and that they should have above average intelligence and drive (Hofstede, 2001:314). In most cultures, men are considered to be the breadwinner and women the cake winners, and this inequality extends into the management ranks of the business. In more feminine cultures, resistance against women entering higher jobs tends to be weaker. Differences in career advancement for men and women are also affected by the fact that levels of career ambition vary according to national cultures. Men in masculine societies are expected to aim for career achievement, and for women in such societies, career aspirations are optional. In feminine societies, career aspirations are optional for both genders (Hofstede, 2001:314). Masculine versus feminine countries excel in different types of industries, according to their cultural characteristics. Industrially developed masculine cultures have a competitive advantage in manufacturing at large volumes. They are good at the production of big and heavy equipment and in bulk chemistry. Feminine cultures have a relative advantage in service industries, for example consulting, transportation and manufacturing according to customer specifications, agriculture and biochemistry (Hofstede, 2001:315). Table 3.4 below high-lights some of the key differences between feminine and masculine societies in the work situation.

Table 3.4 Key differences between feminine and masculine societies in the work situation

Low MAS	High MAS
Work is done in order to live	People live in order to work
The meaning of work for workers: relations and working conditions	The meaning of work for workers: security, pay and interesting work
Equality, solidarity and quality of work life is important	Equity, mutual competition and performance is important
Management as ménage	Management as manège
Managers are employees like the others	Managers are culture heroes
Managers are expected to use intuition, to deal with feelings and seek consensus	Managers are expected to be decisive, firm, assertive, aggressive, competitive
Both male and female characteristics are seen as a successful manager	Sole male characteristics are seen as a successful manager
There are more women in management	There are fewer women in management

positions	positions
Smaller wage gap between genders	Larger wage gap between genders
Women prefer a female boss	Women prefer a male boss
Career ambitions are optional for both genders	Career ambitions are compulsory for men and optional for women
Managers hold modest career aspirations	Managers hold ambitious career aspirations
Women in management positions take having families for granted and adapt their careers	Women in management take having careers for granted and adapt their families
Job applications undersell themselves	Job applications oversell themselves
Humanisation of work through creation of work groups	Humanisation of work through provision of task challenge
Conflicts are resolved through problem solving, compromise and negotiation	Conflicts are resolved through denying them or fighting until the best “man” wins
More people are absent when sick	Fewer people are absent when sick
Lower job stress: fewer burnouts	Higher job stress: more burnouts
Preference for smaller companies	Preference for larger companies
Preference for working fewer hours	Preference for higher pay
Competitive advantage in service industries, consulting, live products and biochemistry	Competitive advantage in manufacturing industries, price competition, heavy products and bulk chemistry

SOURCE: Hofstede, 2001: 318

3.3. Gray’s accounting classifications of culture

Research has been done for more than 30 years on how culture might influence accounting systems in different countries (Askary, 2006). When the cultural environment interacts with accounting, a complex situation can be created. Gray’s (1988) article in Abacus, entitled *Towards a Theory of Cultural Influence in the Development of Accounting Systems Internationally,* was very important in the development of the idea that culture might influence accounting. According to Gray, cultural areas and patterns should have a close correlation with accounting systems, and this is the basis of his theory of cultural relevance to accounting. Hofstede's cultural model was extended by Gray (1988), in order for accounting values and systems to integrate with the values and institutional norms of the society. Gray (1988) states that accounting systems are linked and derived from the specific social values that each country has. In this chapter, the first four dimensions described by Hofstede (2008a), namely (1) Individualism versus Collectivism; (2) Large versus Small Power Distance; (3) Strong versus Weak Uncertainty Avoidance and (4) Masculinity versus Femininity', will be used. The reason why Hofstede's societal values are relevant to this paper is because Gray's theory relates Hofstede's cultural values to Gray's accounting sub-cultural values and the conceptualisation of the latter was influenced by the former. From Hofstede's work, Gray (1988) identified four accounting value dimensions that can be used to define a country's accounting sub-culture: professionalism versus statutory control; uniformity versus conformity; conservatism versus optimism; and secrecy versus transparency. The first two dimensions relate to authority and enforcement of accounting practice at a country level, and the second two relate to the measurement and disclosure of accounting information at a country level. Gray also argues that shared cultural values within a country lead to shared accounting values, which in turn influences the nature of a nation's accounting system (Doupnik & Tsakumis, 2004). While Hofstede's work is based on empirical data, Gray based his ideas on a priori reasoning and general (and wide) experience of international accounting regimes.

3.3.1. Professionalism versus statutory control

Professionalism is the preference for the exercise of professional judgement by an individual and maintaining the professional self-regulation, as opposed to complying with prescriptive legal requirements and statutory control (Gray, 1988:8; McLeod & Hanks, 1985:909). The Oxford Dictionaries Online (2010) defines professionalism as the ability or skill that is expected from a professional and statutory control is defined as something that is required, or enacted, by law. Professionalism makes up a very important element of accounting values, as an accountant has to make professional judgements with regard to valuations and other parts of financial statements (Chanchani & Willett, 2004:129).

The first level of professionalism is where the individual makes professional judgements and the second level is the statutory level with independent professional institutions. Every accountant must have the ability to make professional judgments about valuations and disclosure of financial information (Chanchani & Willett, 2004:129). Legal factors, statutory requirements and established professional practices will influence the way in which professionalism will differ across the world. When developing an accounting body in different countries, the bodies will have different levels of self-regulation, for example US and UK professional bodies have a larger degree of self-regulation than those of other European and developing countries. The argument that professionalism is an important aspect of accounting is supported by other writers, such as Taylor and Turley (1986), and Nobes and Parker (1995).

3.3.2. Uniformity versus flexibility

Uniformity can be defined as the preference of different companies to use the same accounting practices over a period of time, as opposed to a flexible accounting practice that will change according to the needs of the individual company (Gray, 1988:8). O'Regan (2004) defines uniformity as being without variation or differences and encourages that organisations have the same basis when preparing financial statements. The Oxford Dictionaries online (2010) defines flexibility as being willing to change or adapt to a certain situation. There are two components of uniformity: Uniformity when accounting policies and rules are applied and inter-temporal consistency of accounting practices. The need for consistency in the application of accounting principles has arisen because of the alternatives available for dealing with some important problems in financial accounting and reporting. The comparability of financial statements across firms and over time will be increased if accounting principles are applied consistently (Chanchani & Willett, 2004:129). According to Popoff and Cowan (1985:73), if any set of accounting principles is chosen, it will improve the comparability of financial statements. In the UK and US there is a need for flexible accounting, whereas in France, a uniform accounting plan has been followed. Writers such as Arpan and Radebaugh (1985), Nobes and Parker (1995) and Holzer (1984) also support the fact that there should be uniformity in accounting practices.

3.3.3. Conservatism versus optimism

Conservatism is a preference for handling measurement with caution in order to avoid the uncertainty of future events as opposed to a more optimistic, *laissez-faire* and risk-taking approach (Gray, 1988; O'Regan, 2004:72). Conservatism means to be cautious when following an accounting approach and it may well result in losses rather than profits (Chanchani & Willett, 2004:130). The Oxford Dictionaries Online (2010) defines optimism as being hopeful and confident about the future or the success of something. According to Sterling (1967:10), the concept of *conservatism* is one of the oldest principles in accounting valuations. Conservatism differs greatly in different parts of the world. Europe follows a very conservative approach, as opposed to accountants in the UK and US, where the approach is more liberal (Chanchani & Willett, 2004:130). Conservative differences in countries are increased by new capital markets, the varying interests of users and the effects tax law has on accountants (Gray, 1988). The impact that conservatism has on accounting has been stressed by other writers, such as Choi and Mueller (1984), Beeny (1975, 1976), Nobes (1992), and Arpan and Radebaugh (1985).

3.3.4. Secrecy versus transparency

Secrecy is the preference for disclosing financial information in a cautious manner and is a fundamental element of accounting as opposed to more transparent, open and publicly accountable approaches (Gray, 1988; McLeod & Hanks, 1985:1043). The Oxford Dictionaries Online (2010) defines secrecy as the action of keeping something secret as opposed to transparency that is defined as the condition of being open and public. Gray suggested that issues of secrecy stem from management and the quantity of information that will be disclosed to outsiders will depend on the influence that management exerts (Chanchani & Willett, 2004:130). Jaggi (1975) supports Gray's point of view that management has the influence to be secretive and that they can disclose minimal information from the financial statements. Secrecy varies considerably between countries, especially between the US and Europe (Barrett, 1976; Choi & Mueller, 1984; Arpan & Radebaugh, 1985). The differential development of capital markets and the nature of share ownership will also increase the differences between countries (Watts, 1977).

3.4. Hofstede-Gray theory

The above accounting values from Gray have been theoretically linked to Hofstede's societal value dimensions. From this link, Gray found the following hypotheses:

H_1: The higher a country ranks in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance, the more likely it is to rank highly in terms of professionalism.

H_2: The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism, the more likely it is to rank highly in terms of uniformity.

H_3: The higher a country ranks in terms of uncertainty avoidance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of conservatism.

H_4: The higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism and masculinity, the more likely it is to rank highly in terms of secrecy.

The above hypotheses are supported by empirical research done by other researchers. Sudarwan (1994:8) used linear structural relations to test the validity of Gray's model and found that all four the accounting values are confirmed by Indonesian accounting practices. Another researcher, Willet (2002:31), provided support for the accounting values of uniformity, professionalism and secrecy. Olimid (2006:1) found evidence in Romania for the first three of Gray's hypotheses, while Askary (2006:102) confirmed the effects of culture on accounting *professionalism* in twelve developing countries, including Iran, Bangladesh, Jordan, Oman and Qatar.

3.5. Summary

Research in cultural differences in the work environment originated more than 100 years ago and make cultural reconciliation very difficult. What is acceptable, logical and rational in one culture, might be very different in another culture (Minkov, 2007). Culture may be defined as the art, background, education, learning traditions, and the way of life. National cultural distance can be defined as the extent to which the shared norms and values in one country differs from those in another.

In order to analyse national culture Hofstede designed a questionnaire that was used to study the work-related attitudes of 116,000 IBM employees in over 50 countries and three regions. The four cultural dimensions that Hofstede identified can be described as i) the power distance relating to the extent to which a society prefers that power in relationships, institutions, and organisations are distributed equally and unequally, ii) individualism versus collectivism, which is described as people looking after themselves and their immediate family versus people belonging to in-groups in exchange for loyalty, iii) masculinity versus femininity, which relates to the degree to which masculine or feminine qualities are valued and shown and iv) uncertainty avoidance relates to the extent to which people feel threatened by uncertainty and ambiguity and try to avoid them. Gray (1988) then extended Hofstede’s earlier cultural framework to financial accounting systems. He suggested that accounting values are derived from cultural dimensions. The four accounting values are i) professionalism versus statutory control, ii) uniformity versus flexibility, iii) conservatism versus optimism and iv) secrecy versus transparency.

CHAPTER 4

4. RESEARCH DESIGN AND METHODOLOGY

4.1. Introduction

The information provided in the literature study in Chapters 2 and 3 of this study led to the conclusion that an empirical investigation is needed. The investigation is needed because from the literature review it was found that culture does have an impact on cross-border M&A. It is therefore important to investigate what impact the cultural differences will have from an accounting/management perspective.

Firstly, it is important to have an understanding of the difference between a research design and research methodology. A *research design* is a strategic framework stipulating action plans and providing a bridge between the research question and the execution or implementation of the research (Durrheim, 2006: 34). A research design can also constitute the blueprint for the collection, measurement and analysis of the relevant data (Mouton, 2009:55; Blumberg, 2008:69; Cooper & Schlinder, 2008:140). *Research methodology* refers to a logical grouping of methods supporting each other in order to deliver the data and findings that reflect the research question and support the research purpose (Henning, Van Rensburg & Smit, 2009:36). Research methodology focuses on the processes, techniques and procedures that are used to do the research (Babbie & Mouton, 2001:75). Leedy and Ormrod (2005:12) define research methodology as the general approach that the researcher takes in order to carry out the research project. The difference between research design and research methodology is that research design focuses on the end product, while research methodology focuses on the processes, techniques and procedures that are used to research the end product (Mouton, 2009:56).

4.2. Types of research

4.2.1. Quantitative and qualitative research

A widely-used distinction in research studies is between quantitative and qualitative studies (Blumberg, 2008:191), and it refers to the different kinds of information researchers base their conclusion on.

A *quantitative* research study is normally used to answer questions about the relationships among measured variables with the purpose of explaining, predicting and controlling the events. It usually ends with a confirmation or disconfirmation of the hypothesis that was tested (Leedy & Ormrod, 2005:94). In a quantitative study, the focus will be to control the actions and presentations of the participants (Henning *et al*., 2009:3). The quantitative research approach uses statistical tools to collect and quantify numerical data and it often involves large-scale participants to quantify the frequency of occurrence and complex text scores (Sayer, 2000).

In a *qualitative* study, the "variables" are usually not controllable (Henning *et al*., 2009:3) and this approach provides the collection of information that cannot be quantified. Strauss and Corbin (1998:11) describe the qualitative research approach as "a research about persons' lives, lived experiences, behaviours, emotions and feelings about organisational functioning, social movements, cultural phenomena, and interactions between nations". The qualitative approach also has the ability to answer the questions "why", "what" and "how" (Saunders, Lewis & Thornhill, 2009).

Mellenberg, Ader, Baird, Berger, Cornell, Hagenaars and Molenaar (2003:215) argue that quantitative and qualitative research is not contradictory and can support each other in the research process. The researcher has used both quantitative and qualitative research in addressing the research question and objectives as set out in Chapter 1.

4.3. Case study research

4.3.1. Definition

The case study method has been selected for this project because it is related to the purpose of the study. Case study research continues to be an essential form of social science investigation, with Bryman and Bell (2007:63) identifying it as an object of interest in its own right with the researcher aiming to provide an in-depth explanation of the research topic. A case study is an ideographic research method that studies individuals as individuals instead of as members of a population (Lindegger, 2006:460-461). Depending on the situation, case studies may be conducted alone or they can be combined with methods such as doing surveys, designing and conducting experiments, using quantitative models and doing qualitative research (Yin, 2003).

4.3.2. Strengths of case study research

A researcher based case study research on the nature of the research problem and the research question being asked (Merriam, 2009). According to Merriam (2009), the strengths of case studies outweigh their limitations by providing people's real-life experiences and practices. Cohen, Kahn and Steeves (2000:184) state that case study data is based on real-life situations, making the data more persuasive and more accessible. The information gathered in case studies provides data, which researchers can use as a base to expand the research topic. It also allows researchers to show the complexity of social life, and to explore alternative meanings and interpretations. Researchers use case studies as a tool to generate and test different theories in order to generate relevant managerial knowledge (Gibbert, Ruigrok & Wicki, 2008:1465). Otley and Berry (1998:S106) state that case study research has numerous potential roles to play, although the fundamental role is that of exploration.

4.3.3. Limitations of case study research

Despite all the strengths of case study research, there are some concerns about the thoroughness of the methods used in terms of reliability and validity (Gibbert *et al.,* 2008:1465). During a case study, the researcher becomes aware of the connections between various events, variables and outcomes, but should be careful not to lose sight of the whole. This complexity of the case can make an analysis difficult (Blaxter, Hughes & Tight, 2006:74). According to Merriam (2009), case study research is limited by the integrity and sensitivity of the investigator because the researcher is the primary instrument in the collection and analysis of the data.

4.4. Data collection techniques

During a case study, there are two basic methods through which data can be collected, namely qualitative and quantitative methods (Brynard & Hanekom, 2008:35). Qualitative techniques include in-depth interviewing, participant interviewing, case studies, document analysis, etc. (Blumberg, 2008:201-202). The empirical data in this study was collected using questionnaires.

4.4.1. Questionnaire

Berdie and Anderson (1974: 67) define a questionnaire as a scientific instrument to measure and collect specific kinds of data. It is one of the most frequently used instruments by researchers and because of its reliable nature it is used for the elicitation, recording and collection of information. The different types of questionnaires that can be used include the self-administered, the investigator-administered, postal surveys, telephone surveys and the psychological test (Maree & Pietersen, 2007:157). The researcher has chosen to use the self-administered questionnaire for this research study.

A very important fact that the researcher needs to take into consideration when designing a questionnaire, is the type of data the questions will generate and the statistical techniques that will be used to analyse them (Maree & Pieteren, 2007:158). Another aspect to consider is that questionnaires are made up by both open-ended and closed-ended questions.

In open-ended questions, the respondents are free to answer in their own words, and reveal their thoughts in the space provided. This allows the respondents to show their thinking process and to answer the complex questions more effectively (Maree & Pietersen, 2007:160). Some of the drawbacks of an open-ended question are that they are time-consuming and may often be difficult to score, interpret, analyse, tabulate and summarise in the final report.

Closed-ended questions are worded in such a way that they are short and precise. The participants are provided with a set of questions and a box in which they can tick or cross their chosen answer. Closed-ended questions provide the researcher with data that is more legible, easy to tabulate, analyse and it decreases the element of misinterpretation. It also takes less time to complete, but closed-ended questions can also make the respondents guess, because the given alternatives might complicate what is being asked (Maree & Pietersen, 2007:160).

For the purpose of this study, a closed-ended questionnaire was used.

The value survey model 2008 (Hofstede, 2008b) was used, which consists of a 34-item questionnaire, developed for comparing culturally influenced values and sentiments of similar respondents from two or more countries**.** The Value Survey Module Questionnaire 2008 by Geert Hofstede was adjusted according to the research question of the case study. Additional information was added, with information conducted during the literature study. The questionnaire will be provided to the employees of company A in order to compute the first four dimensions of Hofstede's cultural framework, and then use Gray's accounting values to see what the cultural impact is on the accounting function of company A.

4.5. Data analysis

During the process of data collection, the researcher is engaged in what can be referred to as a preliminary analysis of the data. If all the data is collected, an in-depth examination of the data can be performed (Brynard & Hanekom, 2008:60). The collected data was captured, analysed and interpreted using descriptive statistics. Researchers use descriptive statistics to organise and summarise the collected data, in order to successfully communicate the aspects of the research to other parties (Ryan, 2004:4). Researchers must interpret their findings in light of the research question or determine whether the results are consistent with their hypotheses and theories (Blumberg, 2008:75).

The results of the data will be discussed in Chapter 5.

4.6. Research ethics

4.6.1. Ethics defined

Ethics can be defined as the study and philosophy of human behaviour, highlighting the ability to distinguish between right and wrong (Tseng, Duan, Tung & Kung, 2010:587). The Longman Business English Dictionary (2001:160) defines ethics as the moral principles or rules of behaviour that should guide professional members or organisations. It can therefore be concluded that ethics involves human behaviour or morality that should guide a member of a profession.

4.6.2. Ethical considerations

Social sciences research often involves collecting data from people and raises the question as to how the people who provide the data should be treated by researchers. It is thus important that the researcher protects the rights of the participants and those of the institution in which the study is conducted. Ethical considerations should form part of the research design process because the research process can influence individuals or groups directly or indirectly (Oliver, 2003:9). All parties that are involved in a research process should demonstrate ethical behaviour (Cooper & Schindler, 2003:120).

A study conducted by Buys (2009) relating to ethical accounting conduct, revealed that there are four basic principles that promote the objectives of the accounting profession. These principles should be upheld during the research process and are as follows:

- *Professional* competency is the competency that is necessary to perform the professional service, and that the practitioner will apply his knowledge, skill and experience with reasonable care and thoroughness (SAICA, 2006; CIMA, 2009).
- *Integrity* is to adhere to certain standards of conduct and moral behaviour that will lead to integrity. The practitioner should be straightforward and honest in delivering the service (SAICA, 2006; CIMA, 2009).
- *Objectivity* is the quality of being able to maintain an independent attitude and that the practitioner will be fair and bias in delivering the service (SAICA, 2006; CIMA, 2009).
- *Confidentiality* is where the practitioner should respect the confidentiality of the information required during the rendering of the service and should not disclose any information without the proper authority (SAICA, 2006; CIMA, 2009).

Van Deventer (2007: 3-5) has identified some ethics a researcher needs to adhere to, particularly where human participants are involved:

- The researcher needs to give an explanation to the participants of the purpose of the study. The researcher wrote a standardised letter to the participating company, containing a short extract of what the research is all about.

- Harm to research participants must be avoided by respecting the confidentiality of information supplied, and the anonymity of the respondents. The standardised letter indicated that the information gathered will be used confidentially.
- Research participants must participate in a voluntary way, free from any coercion. All participants were requested to complete the questionnaire willingly.
- The research design should be refined to ensure that valid information is made available, so that research participants would know exactly what they might expect within the research process.

All the related ethical procedures and requirements as expected (and mentioned) above were continuously part of the overall project and followed by the researcher in the execution of the research.

4.7. Summary

The literature study in Chapter 2 and 3 found that culture does have an impact on cross-border M&A and that led to the conclusion that an empirical investigation is needed. Firstly, it is important to have an understanding of the difference between a research design and research methodology. A *research design* is a strategic framework stipulating action plans and providing a bridge between the research question and the execution or implementation of the research, while r*esearch methodology* refers to a logical grouping of methods supporting each other in order to deliver the data and findings that reflect the research question and support the research purpose. Another distinction that was made was between quantitative and qualitative research. In a quantitative study, the focus will be to control the actions and presentations of the participants. In a *qualitative* study, the "variables" are usually not controllable and this approach provides the collection of information that cannot be quantified.

The case study method has been selected for this project because it is related to the purpose of this study. A researcher bases case study research on the nature of the research problem and the research question being asked. The empirical data in this study was collected using questionnaires, and was then analysed and interpreted using descriptive statistics.

Another aspect that needs consideration during a research study is ethics. Ethics can be defined as the study and philosophy of human behaviour, highlighting the ability to distinguish between right and wrong. When research is done, where human participants are involved it is important that the participants are given an explanation of the purpose of the study, that the information will be used in a confidential manner and that participation in the research is voluntary. All the related ethical procedures and requirements as expected (and mentioned) above were continuously part of the overall project and followed by the researcher in the execution of the research.

CHAPTER 5

5. DATA ANALYSIS AND INTERPRETATION

5.1. Introduction

This chapter presents the statistical analyses and the interpretations of the results gathered from the responses obtained by the participants who completed the questionnaire of this study's empirical research. During the course of this chapter, the results of Hofstede's cultural dimensions will be discussed and the results will be used to consider how culture might affect a cross-border merger and acquisition and how that relates to an accounting perspective. The statistical analysis of the questionnaire is analysed in the same order as the questionnaire structure, namely:

- Individual information of staff; and
- Value Survey Model questions.

5.2. Individual information of participants

The questionnaire was sent to the employees who work in the accounting or management functions of Company A. The questionnaire was sent to 25 employees of Company A and a total of 21 questionnaires were received back, resulting in a very good response rate of 84%. The individual information of the participants is represented and discussed in this section.

The areas that were measured were:

- The gender of the participants;
- The age of the participants;
- The nationality of the participants;
- The division in which the participant works;
- The duration of employment of the participant at Company A;
- The highest academic qualification of the participant;
- To which professional accounting designations does the participant belong to; and
- The duration of employment of the participant in their current profession.

5.2.1. The gender of the participants

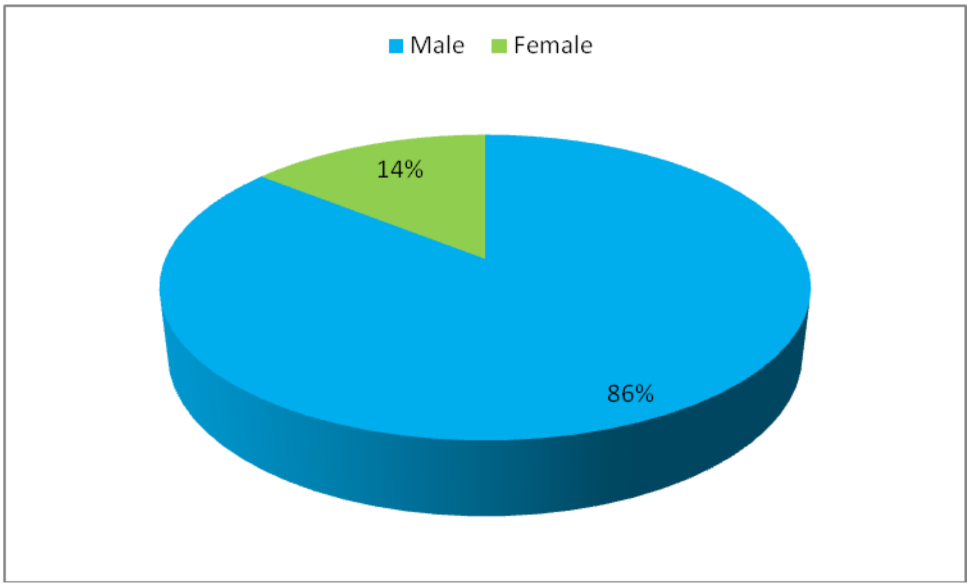
The participants were asked to indicate their gender. The results are found in Table 5.1 below.

Table 5.1 Gender of the participants

	Frequency	Percentage
Male	18	86
Female	3	14
Total	**21**	**100**

The above table indicates the number of male (n=18) and female participants (n=3) that participated in the empirical study. This indicates that the participants to the research consisted mostly of male participants (86%).

Figure 5.1 Graphical representation of the gender of the participants



5.2.2. Age groups of the participants

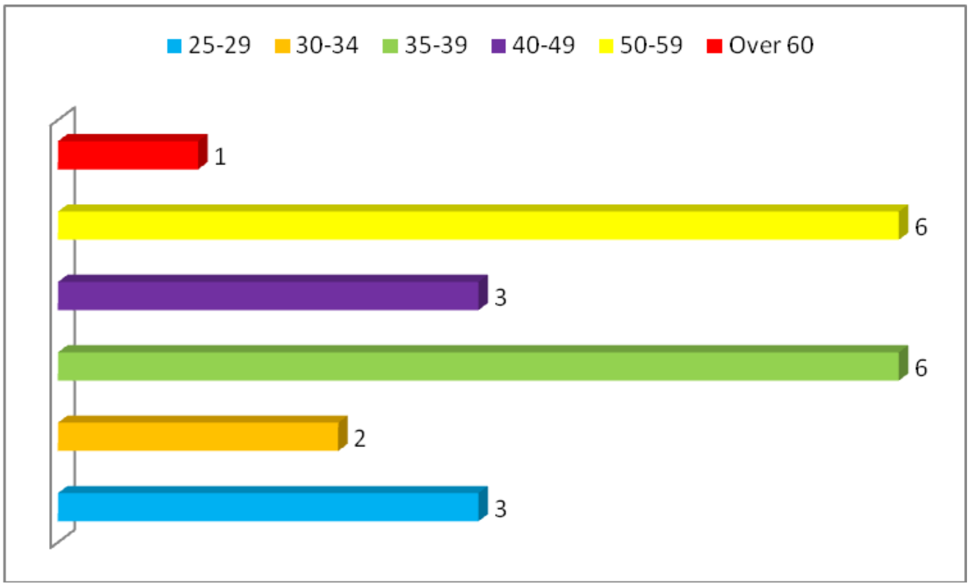
The participants were asked to indicate to which age group they belong. The results can be found in Table 5.2 below.

Table 5.2 Age of the participants

	Frequency count	Percentage
< 20	0	0
20-24	0	0
25-29	3	14
30-34	2	9
35-39	6	29
40-49	3	14
50-59	6	29
60+	1	5
Total	**21**	**100**

Table 5.2 indicates that the age groups with the highest percentages are the participants in the age groups between 35 and 39 years (29%) and between 50 and 59 years (29%). The age group that has the second highest percentage is the age group between 25 and 29 years and 40 and 49 years (14%). This suggests that the age of the participants is fairly evenly distributed throughout the company.

Figure 5.2 Graphical representation of the age distribution of the participants



5.2.3. Nationality of the participants

The participants were asked in question 3 of the questionnaire to indicate their nationality and in question 4 of the questionnaire they could indicate if their nationality was different at birth. The results are shown in Tables 5.3 and 5.4 below.

Table 5.3 Nationality of participants

	Frequency	Percentage
South African	16	76
French	5	24
Total	21	100

Table 5.4 Nationality of participants at birth

	Frequency	Percentage
South African	16	76
French	5	24
Total	21	100

The results in Table 5.3 show that 76% of the participants are from South Africa and 24% are from France. This means that a small percentage of the French culture had to interact with a much larger South African population. The results in Table 5.4 indicate that all the participants still have the same nationality as from birth.

5.2.4. The division in which the participant works

The participants were asked to indicate if they are currently working in the accounting function or management function of Company A. The results are shown in Table 5.5.

Table 5.5 Division currently working in

	Frequency	Percentage
Accounting function	1	5
Management function	19	90
Both	1	5
Total	**21**	**100**

The results in Table 5.5 show that most of the participants are in the management function of Company A (n=19) and that one participant is solely in the accounting function, while one of the participants is involved in both the management and accounting functions. The results indicate that a large part of the study is made up of the management function of Company A.

5.2.5. The duration of employment of the participants at Company A

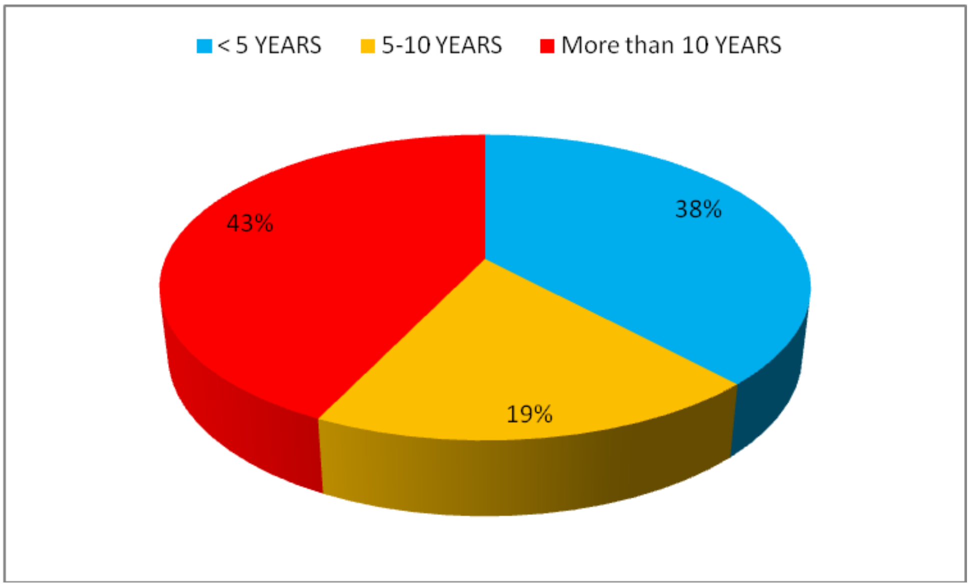
Question 6 of the questionnaire asked the participants to indicate how long they have been in the management/accounting function at Company A, as shown in Table 5.6.

Table 5.6 Duration of employment at Company A

	Frequency	Percentage
<5 years	8	38
5-10 years	4	19
More than 10 years	9	43
Total	**21**	**100**

The results shown in Table 5.6 indicate that Company A has a very good mixture of experience. With 38% of the participants working less than 5 years, they might bring fresh and innovative ideas to Company A and the 43% of participants who have been in the company for more than 10 years, will know from experience whether such new ideas might work.

Figure 5.3 Graphical representation of duration of employment at Company A



5.2.6. The highest academic qualification of the participant

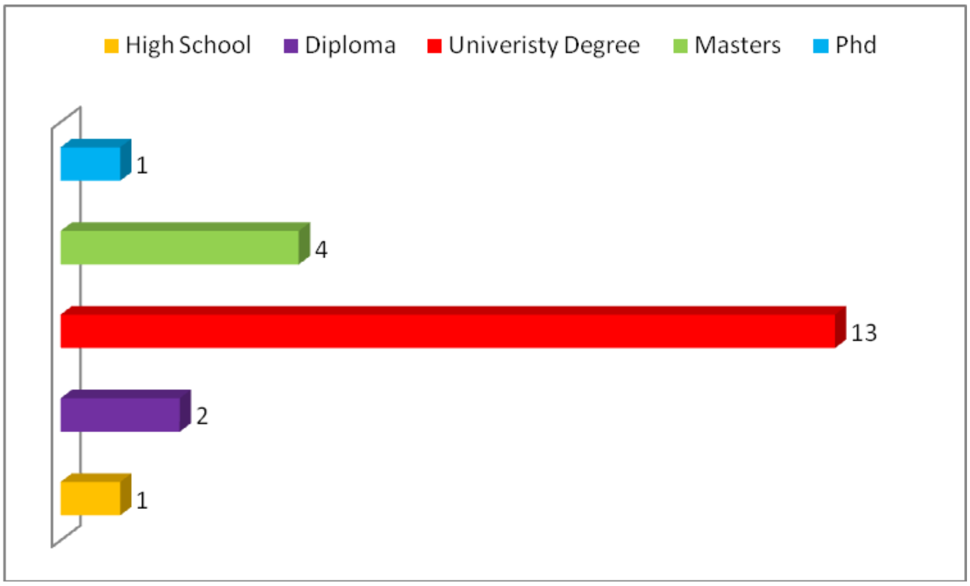
The participants were asked to indicate what their highest academic qualification achieved was. The results are shown in Table 5.7.

Table 5.7 Highest academic qualification

	Frequency	Percentage
High school	1	5
Diploma	2	9
University degree	13	62
Master's	4	19
PhD	1	5
Total	**21**	**100**

Table 5.7 indicates that 95% of the participants have a higher education qualification (i.e. a post-high school education), which is made up by two participants having a diploma, 13 participants a university degree, four participants a master's degree and one participant has a PhD. This shows that most of the participants are well-educated people.

Figure 5.4 Graphical representation of highest academic qualification



5.2.7. Professional accounting designations

The participants directly involved in the accounting function were asked to indicate any (if any) professional accounting designations they might hold. The results are shown in Table 5.8.

Table 5.8 Professional accounting designations

	Frequency
Chartered Accountant (SA)	1
Certified Internal Auditor (CIA)	1
OTHER (SAIPA qualification)	1
Total	**3**

There were only two participants who were in the accounting function of Company A. One of the participants was a chartered accountant (belonging to SAICA), while the other participant had two designations and thus belonged to two professional bodies, namely SAIPA and CIA.

5.2.8. The duration of employment of the participant in their current profession

The participants were asked to indicate how long they have been in either the management function or accounting function during their professional career. Tables 5.9 and 5.10 show the results:

Table 5.9 Number of answers

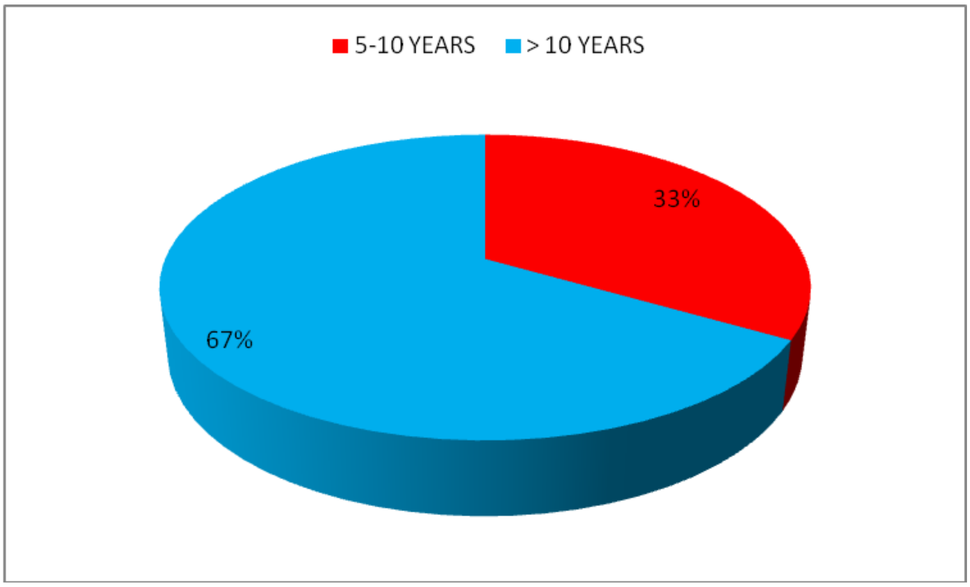
	Frequency	Percentage
Answered	6	29
No answer	15	71
Total	**21**	**100**

Table 5.10 Duration of employment in their current profession

	Frequency	Percentage
<5 Years	0	0
5 - 10 Years	2	33
10+ Years	4	67
Total	**6**	**100**

Considering Table 5.9, it is clear that the participants did not understand the question correctly or either confused it with question 6. The results indicate that only six participants (29%) of the participants answered the question. Question 6 required the participants to indicate their duration of employment at Company A, whereas question 9 asked the participants the duration of employment in their current profession. From Table 5.10 (participants who did answer question 9), it is evident that 67% of the participants have been in their profession for more than 10 years and 33% of the participants have been working in their profession for 5 to 10 years. The results are summarised in Figure 5.5.

Figure 5.5 Graphical representation of the duration in the accounting/auditing/management profession



5.3. Data analysis: Descriptive statistics

This section presents a statistical analysis of questions 10 to 25 in the questionnaire (Refer to APPENDIX 01 on page 97). The constructs will be examined by making use of descriptive statistics. The data collected is represented in terms of a Likert scale ranging from 1 to 5. Questions 10 to 19 used a scale, with 1 meaning *of utmost importance* and 5 meaning *of very little or no importance*. Question 20 had a scale, with 1 meaning *always* and 5 meaning *never*, while question 21 used a scale with 1 meaning very good and 5 meaning *very poor*. Question 22 had the opposite scale of question 20, where 1 means *never* and 5 indicates *always*. Questions 23 to 25 had a scale with 1 meaning that the participant *strongly agrees* and 5 meaning that the participant *strongly disagrees*. The descriptive statistics are shown in Tables 5.11 and 5.12 for the South Africans and the French, respectively.

Table 5.11 Descriptive statistics: South Africans

South Africans								
Descriptive statistics								
	N	**Min**	**Max**	**Mean**	**PDI**	**IDV**	**UAI**	**MAS**
Q 10	16	1	5	1.69				
Q 11	16	1	5	1.75				
Q 12	16	1	5	1.69				
Q 13	16	1	5	1.75				
Q 14	16	1	5	2.94				
Q 15	16	1	5	1.69				
Q 16	16	1	5	1.44				
Q 17	16	1	5	2.44				
Q 18	16	1	5	3.19				
Q 19	16	1	5	1.50				
Q 20	16	1	5	3.25				
Q 21	16	1	5	2.00				
Q 22	16	1	5	3.44				
Q 23	16	1	5	2.31				
Q 24	16	1	5	1.94				
Q 25	15	1	5	2.47				
					28	**56**	**46**	**78**

Table 5.12 Descriptive statistics: French

French								
Descriptive statistics								
	N	Min	Max	Mean	PDI	IDV	UAI	MAS
Q 10	5	1	5	2.00				
Q 11	5	1	5	1.60				
Q 12	5	1	5	1.20				
Q 13	5	1	5	2.80				
Q 14	5	1	5	2.00				
Q 15	5	1	5	1.60				
Q 16	5	1	5	2.20				
Q 17	5	1	5	3.00				
Q 18	5	1	5	3.60				
Q 19	5	1	5	2.00				
Q 20	5	1	5	3.40				
Q 21	5	1	5	1.60				
Q 22	5	1	5	3.40				
Q 23	5	1	5	1.60				
Q 24	5	1	5	1.40				
Q 25	5	1	5	2.40				
					72	**99**	**8**	**64**

5.3.1. Formulas for index calculation

The sixteen content questions (Questions 10 to 25 on the questionnaire) allow index scores to be calculated for four dimensions of national value systems as components of national cultures: Power Distance (large vs. small), Individualism vs. Collectivism, Masculinity vs. Femininity and Uncertainty Avoidance.

All content questions were scored on five-point scales (1-2-3-4-5). Index scores are derived from the mean scores on the questions that were answered by the employees of Company A. The index formulae are:

- **Power Distance Index (PDI)**

  PDI = 35(m016 – m011) + 25(m22 – m24) + C(pd)

- **Individualism Index (IDV)**

  IDV = 35(m13 – m10) + 35(m18 – m15) + C(ic)

- **Masculinity Index (MAS)**

  MAS = 35(m05 – m03) + 35(m08 – m10) + C(mf)

- **Uncertainty Avoidance Index (UAI)**

  UAI = 40(m20 - m16) + 25(m24 – m27) + C(ua)

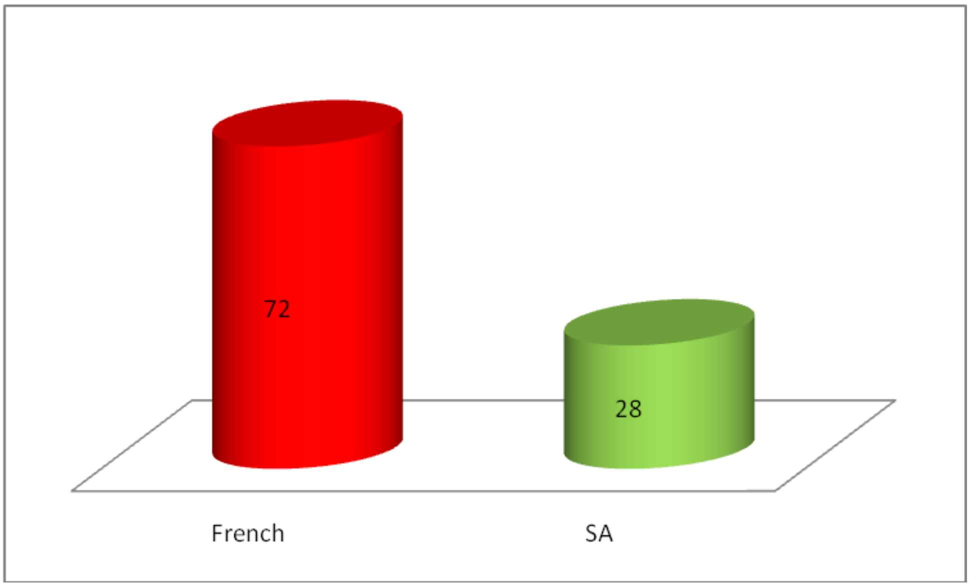
The formulae can be interpreted as follows: m16 is the mean score for question 16 on the adjusted value survey questionnaire and C(pd), C(ic), C(ua) and C(mf) are all constants (positive or negative) that can be chosen by the user to shift her/his PDI / IDV / UAI / MAS scores to values between 0 and 100.

5.3.2. Discussion of the four cultural dimensions

The cultural dimensions of the French and South African workers in the accounting and management function of Company A were compared to each other:

5.3.2.1. Power Distance Index

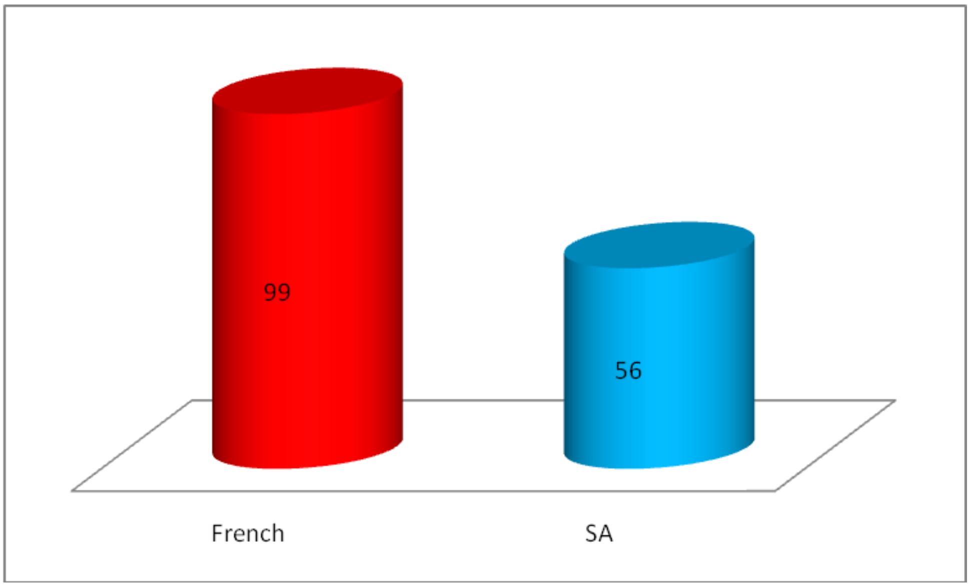
Figure 5.6 Graphical representation of Power Distance Index (PDI)



Power distance data revealed that hierarchical order or the fact that power is not distributed equally is much more acceptable to the French participants (72) as to the South African participants (28). Power inequalities will more often be questioned by the South African participants, while the French will accept power inequalities more readily. The results indicate that the French in Company A are of the opinion that some are meant to be in command and others need to follow, whereas the South Africans wishes to have a closer relationship between the boss and the subordinate (McFarlin & Sweeney, 2006:122-123). The French will also have a greater centralisation of power; they will place more importance on status and rank and the subordinates' needs to adhere to a strict hierarchy of power (Samovar *et al*., 2009:203).

5.3.2.2. Individualism versus collectivism

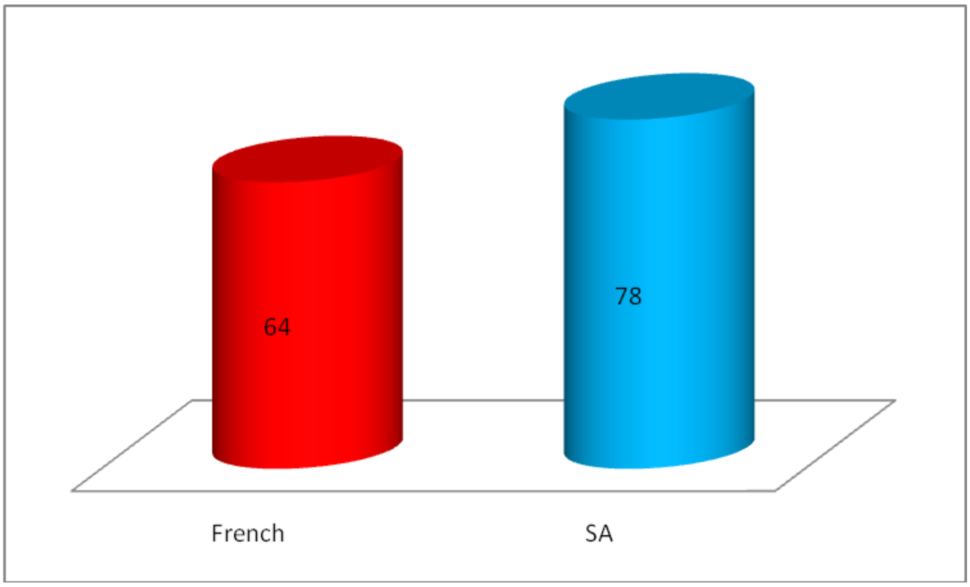
Figure 5.7 Graphical representation of Individualism versus Collectivism



The results indicate that individual rights, as measured by individualism, are more dominant in the French (99), than in the South Africans (56). The French will place more importance on the individual and taking care of himself. They will stress independence rather than interdependence and the individual will be awarded for his achievements (Samovar *et al*., 2009:199). Therefore, the French will take care of themselves and their direct families, while the South Africans are more likely to expect their relatives to take care of them in exchange for unconditional loyalty.

5.3.2.3. Masculinity and Femininity

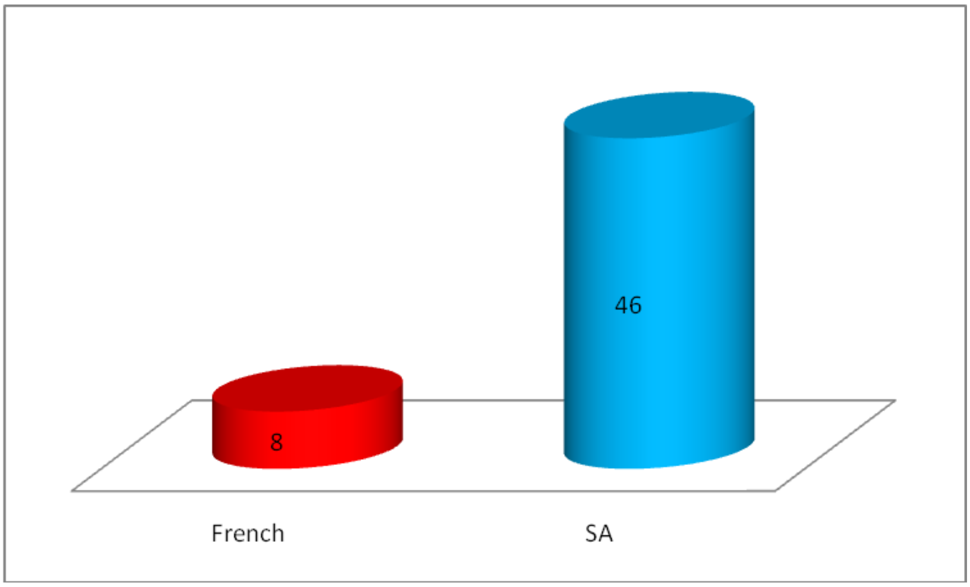
Figure 5.8 Graphical representation of Masculinity versus Femininity



The masculinity versus femininity cultural dimensions refer to the degree to which masculine or feminine qualities are valued and shown. According to Verma (2000:11), masculinity represents qualities such as assertiveness and material success, whereas femininity represents qualities such as caring relationships and quality of life. In addition, masculine dimensions include a preference for showing off, achievement, heroism, making money, 'thinking big' etc. On the contrary, the feminine dimensions stress nurturing behaviours and they will put relationships with people before money in order to help others, to care for the weak, to have quality of life and to protect the environment etc (Samovar *et al*., 2009:206). It can therefore be concluded that attributes such as assertiveness and material success are more important to the South Africans than the French.

5.3.2.4. Uncertainty Avoidance

Figure 5.9 Graphical representation of Uncertainty Avoidance Index (UAI)



Uncertainty Avoidance, or ways of dealing with uncertainty, was assessed to be higher with the South African participants than the French participants. The primary issue is how a society reacts to the fact that the future is unknown. Cultures with higher uncertainty try to avoid uncertainty and doubt by providing a set of rules and they do not tolerate deviant ideas and behaviours (Moustafa, Slaubaugh & Wang 2008:539). Uncertainty relates to the level to which members feel uncomfortable with uncertainty and ambiguity (Samovar *et al*., 2009:202). Low levels of uncertainty avoidance are an indication that the members of the society in general feel secure and will not attempt to control the future through laws. These cultures will also be more willing to take risks. Different viewpoints of different people will be better handled by the French than by the South Africans. The fact that uncertainty avoidance was measured to be higher with the South Africans, might be an indication that members of the society will feel anxious about the future and that they would want to avoid risk. The French will therefore also be more willing to take advantage of a good business opportunity that involves a high level of risk.

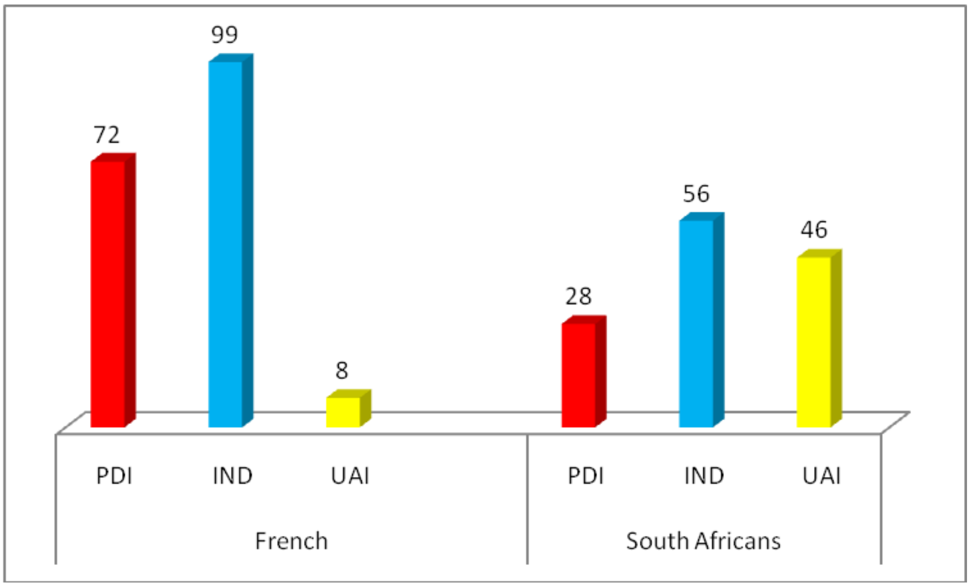
5.4. Gray's accounting values

The cultural dimensions, as discussed in section 5.4 above, will be extended to the accounting values of Gray (1988:5) in the following paragraphs.

5.4.1. Professionalism versus statutory control

The cultural dimensions that relate to professionalism versus statutory control are power distance, individualism and uncertainty avoidance and are set out in Figure 5.10 below.

Figure 5.10 Graphical representation of Professionalism versus Statutory Control



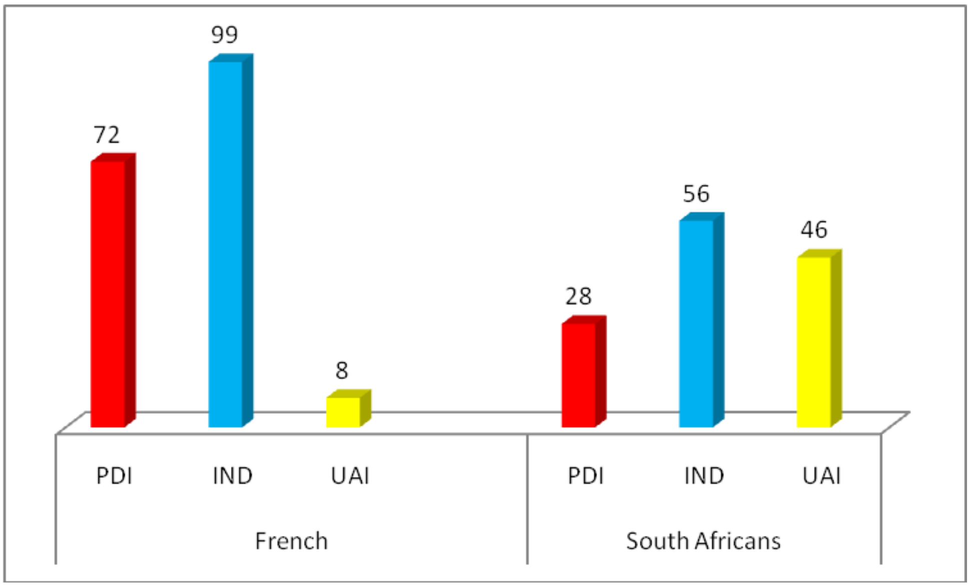
Gray's first hypothesis suggests that a higher ranking in terms of individualism (IDV) and a lower ranking in terms of uncertainty avoidance (UAI) and power distance is suggestive of a preference for professionalism. The research revealed that due to a higher individualism ranking and lower uncertainty and power distance rankings the French (IDV = 99; UAI = 8; PDI = 72) and the South Africans (IDV = 56; UAI = 46; PDI = 28) will rank high in terms of professionalism. The French have a much higher level of individualism and power distance than the South Africans, as opposed to the South Africans having a higher level of uncertainty avoidance. Gray stated that low professionalism is indicative of a strong feeling against uncertainties. With the South

Africans having a higher level of uncertainty avoidance, the French will therefore be more professional in their approach to their work.

5.4.2. Uniformity versus flexibility

The cultural dimensions that relate to uniformity versus flexibility are power distance, individualism and uncertainty avoidance and are set out in the figure below.

Figure 5.11 Graphical representation of Uniformity versus Flexibility

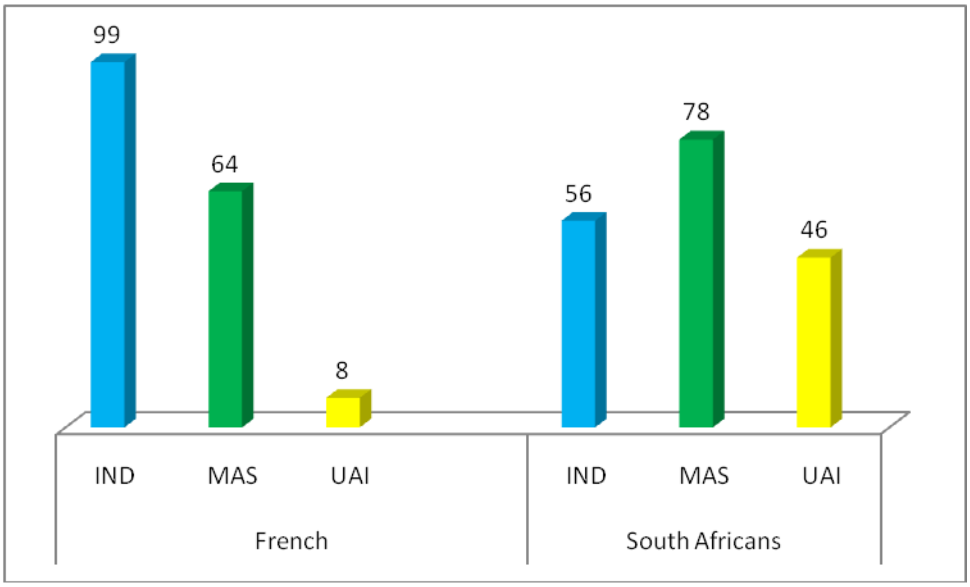


Gray's second hypothesis suggests that a higher uncertainty avoidance (UAI) and power distance (PDI) ranking and lower individualism (IDV) ranking will indicate that uniformity is preferred to flexibility. The research revealed that, due to a lower uncertainty avoidance (UAI) and lower power distance ranking and higher individualism, both the French (UAI = 8; PDI = 72; IDV = 99) and the South Africans (UAI = 46; PDI = 28; IDV = 56) will rank high in terms of flexibility. The result therefore indicates that both the French and the South Africans will be flexible in their management and accounting practices and they will adapt to a certain situation. The South Africans having a higher uncertainty avoidance index indicates that they will be more intent not to deviate from norms, which means that the French are likely to be even more flexible than the South Africans and will be able to adapt quicker to a situation.

5.4.3. Conservatism versus optimism

The cultural dimensions that relate to conservatism versus optimism are individualism, masculinity and uncertainty avoidance and are set out in Figure 5.12 below.

Figure 5.12 Graphical representation of Conservatism versus Optimism

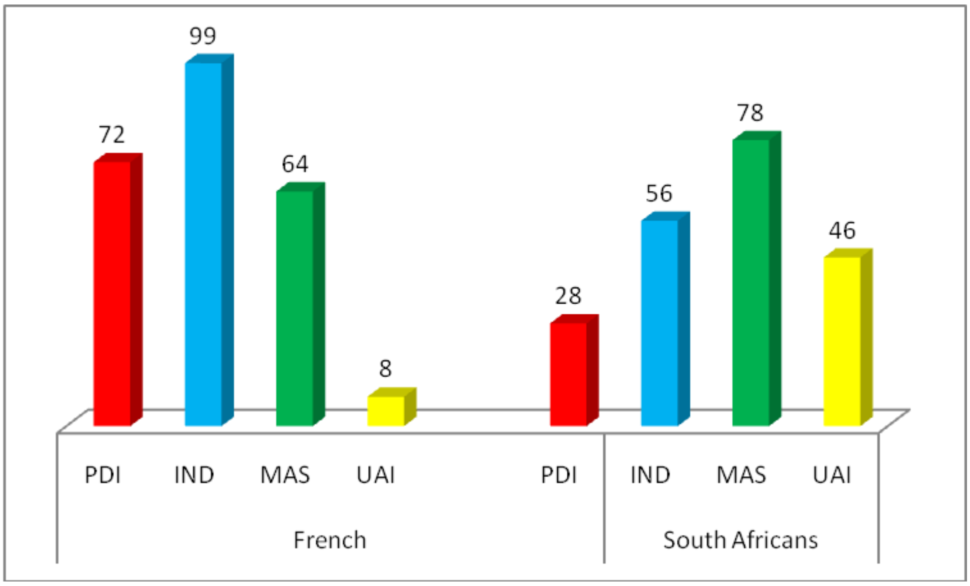


Gray's third hypothesis suggests that higher uncertainty avoidance and lower individualism and masculinity are indications of a preference in terms of conservatism. The research revealed that, due to a lower uncertainty avoidance (UAI) and higher individualism ranking and a higher masculinity ranking, the French (UAI = 8; IDV = 99, MAS = 64) and the South Africans (UAI = 46; IDV = 56; MAS = 78) will rank higher in terms of optimism. Although the South Africans have a higher level of masculinity, Gray indicated that masculinity is of lesser importance relating to accounting values, and based on two of the three dimensions it is clear that the French will be more optimistic and willing to take risks than their South African counterparts.

5.4.4. Secrecy versus transparency

The cultural dimensions relevant to secrecy and transparency are power distance, individualism, masculinity and uncertainty avoidance and are shown in Figure 5.13 below.

Figure 5.13 Graphical representation of Secrecy versus Transparency



Gray's fourth and final hypothesis suggests that a higher ranking in terms of uncertainty avoidance (UAI) and power distance (PDI) and a lower ranking in terms of individualism (IDV) and masculinity (MAS) are indicative of a preference for secrecy. The result indicates that with a low uncertainty avoidance and power distance (UAI = 46; PDI = 28) and a high ranking of masculinity and individualism (MAS = 78; IND = 56), it is evident that the South Africans will follow a more transparent, open and publicly accountable approach. The French have a very low uncertainty avoidance and a relatively high power distance (UAI = 8; PDI = 72) and a very high individualism ranking and a moderate masculinity ranking (IDV = 99; MAS = 64), which indicates that only three of the four indicators (uncertainty avoidance, individualism and masculinity) revealed a transparent approach as opposed to all four indicators (uncertainty avoidance, individualism, masculinity and power distance) present in the South Africans. This indicates that the South Africans are likely to be more transparent than their French counterparts.

5.5. Summary of research findings

The study conducted revealed that the power distance from the French (72) was considerably higher than that of the South Africans (28), which indicates that the French will more readily accept the fact that power is not distributed equally in the company than the South Africans. Looking at the cultural dimension relating to individualism, the South Africans (56) were again considerably lower than the French (99), which means that the French will focus more on the “I”, whereas the South Africans will focus on the “we” of a group of individuals. The study further revealed that uncertainty avoidance by the South Africans (46) is much higher than the French (8). This means that the French will deal with uncertainty better and that different viewpoints will be better tolerated by the French. Looking at the cultural dimension of masculinity, the difference between the French (64) and the South Africans (78) was not that immense. The main socio-economical difference between the French and South Africans that should be considered are that the French is seen as an upper income country, whereas South is seen as an upper middle-income country. It can be concluded that attributes such as assertiveness and material success will be more important to the South Africans than the French.

Using Gray’s accounting values to investigate the impact of the cultural differences towards an accounting perspective, the results indicate that the differences in cultures did not show such a big difference in terms of an accounting perspective. The results indicate that within Company A, the employees will be very professional in their work and will be able to adapt to certain situations as they favour flexibility. Company A will also favour an optimistic, laissez-faire and risk-taking approach and a transparent open approach to accounting.

CHAPTER 6

6. RESEARCH SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1. Introduction

In terms of the global M&A, the third quarter of 2010 was the busiest quarter in two years, with $562.6 billion or R3.9 trillion of announced takeover transactions during the period (Foley & McCracken, 2010). These transactions include the $40 billion offer that BHP Billiton made for Potash Corporation and the $7.7 billion acquisition Intel announced of security software company McAfee. Jeffrey Kaplan, who is the global head of M&A at the Bank of America, foresees a real potential for large corporate merger and acquisition deals (Foley & McCracken, 2010). It is thus evident that M&A are part of everyday business operations and are expected to keep on growing. When the M&A is an international merger or acquisition, there are bound to be differences and clashes in corporate cultures, different compensation policies and organisational structures that need to be managed by management, which will provide challenges in the business (Blasko, Netter & Sinkey, 2002).

The research question presented in section 1.4 on page 4 was to consider the potential impact of cultural differences from cross-border acquisitions on companies from an accounting/management perspective. In answering this stated question, it was indicated that cross-border acquisitions are likely to impact such a transaction. Whether it is a positive or negative impact, will depend on many factors, including how such cultural differences are handled by the companies involved. The results will be discussed in this chapter and the conclusions will be made.

6.2. Research findings

6.2.1. Literature study findings

The literature study was conducted in Chapters 2 and 3, and the conclusion will be discussed below:

The first part of the literature study (Chapter 2) distinguished between an acquisition and a merger: where an acquisition is defined as the purchase of an organisation, or to obtain operational and legal control of the organisation (O'Regan, 2004:11), whereas a merger is defined as a combination of two corporations, where the one survives and the merged corporation goes out of existence (Gaughan, 2008:12). It then became evident that the reasons why companies merge or acquire are often because of economies of scale. Where companies can expand a current product or asset at a cheaper cost, companies can increase the market power of the firm and get better management skills. Some companies use M&A in order to obtain tax savings, whereas others use them as a defence against the downturn in the economy. Although there are a lot of reasons why companies want to merge and acquire, there are also many challgenges that need to be considered, as this may lead to failure. These challenges include:

- the evaluation of acquisition targets;
- dealing with cultural differences;
- overcoming institutional distances;
- avoiding excessive premiums being paid;
- prevailing over the liabilities of foreignness; and
- understanding the different strategic directions of the companies.

When a company wants to acquire another company, the due diligence process is very important, but this gets complicated in a cross-border acquisition as foreignness and exchange rates make it harder to value. With an acquisition the culture will be enforced, whereas during a merger the culture will be considered. During the integration process, management will face challenges such as that the two firms both have separate corporate and national cultures that need to integrate with each other. Another challenge is the different cultural and institutional environments in which firms operate, which has an effect on the way strategic goals are applied by the managers of these firms. Differences in the knowledge bases of employees from different countries can also lead to problems for the managers. These challenges that managers face can lead to the failure of M&A. Hunt (2009:721) summarises that M&A fail because of insufficient planning, structuring and execution of the transaction. Several researchers found that the reasons why M&A fail are because managers ignore the potential clash of cultures (Bligh, 2006; Grotenhuis & Weggeman, 2002:84) and another researcher stated that cultural mismatches during the merger and acquisition process are a major reason for failure (Richard, 2008:27). The conclusion of Chapter 2 was that M&A are very popular, but from the challenges and reasons for failure it is evident that cultural differences definitely influence the success of a cross-border merger and acquisition.

Hofstede's dimensions were designed from a large-scale study of work-related attitudes of 116,000 IBM employees in over 50 countries and three regions. Hofstede based his dimensions on basic sociological concepts of the (1) self; (2) relationship to authority; (3) control of aggression and (4) gender role differentiation respectively (Hofstede, 2001). These dimensions are briefly highlighted below:

- Power Distance Index (PDI), which relates to the social inequality including relationships with authority.
- Uncertainty Avoidance Index (UAI), which relates to the ability to deal with uncertainty.
- Individualism versus Collectivism, which describes the relationship between the individual and the group.
- Masculinity versus Femininity, which relates to the social implications of being born as a male or a female.

The cultural dimensions by Gray paved the way to suggest that accounting values are derived from cultural dimensions. Gray (1988:8) identified the following for accounting values:

- Professionalism versus statutory control, which refers to professional judgement and self-regulation as opposed to compliance with prescriptive legal requirements and statutory control;
- Uniformity versus flexibility, which refers to the enforcement of uniform and consistent accounting practices as opposed to a more flexible accounting framework;
- Conservatism versus optimism, which refers to a cautious approach to accounting as opposed to an optimistic and risk-taking approach; and

- Secrecy versus transparency, which refers to a confidential and very little disclosure of information as opposed to a more transparent, open and public accounting approach.

The validity of Hofstede and Gray's dimensions has been confirmed by several independent studies, as indicated in Chapter 3.

Based on the literature study, the conclusion was reached that cross-border M&A are definitely influenced by the cultural differences from the participants from different countries. Hofstede's dimensions indicated that each country has its own culture and way of doing things, and that these cultures do have different characteristics. The Gray theory that accounting values can be derived from cultural dimensions was supported by other researchers who show that cultural differences do affect accounting.

6.2.2. Empirical research findings

The empirical results were discussed in Chapter 5. The empirical study was done by means of an adjusted questionnaire from Hofstede's Value Survey Model 2008. The questionnaire consisted of two sections, namely the individual information of staff (Questions 1 -9) and the Value Survey Model questions (Questions 10-25).

The first section indicated that there were 21 participants who participated in the empirical study. Of these 21 participants, three were female and 18 were male. The age groups of the participants indicate that they had a good mixture of youth and experience. The results indicated that they had 29% in the age groups between 35 to 39 and 50 to 59 years, with 14% ranging in the age group of 25 to 29 and 40 to 49 years. This was supported by question 6, which asked how long they have been employed in their current function at Company A. The results also indicated a good mixture between youth and experience. The results showed that 43% of the participants have been working for more than 10 years and 38% have been working for less than five years. The other 19% were categorised in the 5 to 10 years employment category. There were five participants from France and 16 participants from South Africa, which meant that one of the limitations of the study is the fact that the number of French participants was limited. The empirical data showed that 19 of the participants were in the management function, one was solely in the accounting function and the other participant was in both the accounting and management functions. The fact that 90% of the participants are in the management function will give a good indication of how management is affected in the cross-border acquisition. The participants are also well educated, as 90% of the participants have higher education qualifications. The above data indicates that there was a good mixture of participants that will contribute to the reliability of the data.

The ***first objective***, as stated in chapter 1 (refer to section 1.5 on page 4), was to investigate the impact that cultural differences have on a company using Hofstede's cultural dimensions. The study revealed that there was a significant difference in the power distance index between the French (72) and the South Africans (28). The French, with their high power distance, will not take advice from their subordinates, while the low power distance of the South Africans suggests that they will expect to be consulted in the daily business decisions. The French participants will allow inequality between higher-ups and lower-downs and a wide salary range between the top and bottom of the organisation. In this circumstance, the employees will depend on the manager's decisions and the employees will not be able to participate in the decision and to provide their input. In Company A, where the French are in the South African environment, the input of the locals can be very important towards the success of the company. The dimension relating to individualism indicated that the French (99) had a higher level of individualism than the South Africans (56) did. The level of individual rights will be more dominant in the French. The French will place more emphasis on the "I", while the South Africans will be more part of the "We". In the workplace, the French will base the hiring of people and promotions solely on skills and rules, whereas the South Africans will take employees' in "in-groups" into account when making that decision. This means that there might be conflict in hiring new employees or making promotions, because the South Africans would rather consider someone in the group rather than taking in an outsider with better skills and experience. The uncertainty avoidance index indicated that the South Africans (46) had a much higher level of uncertainty avoidance than the French (8) did. This indicates that the South Africans will introduce rigid procedures to reduce the level of uncertainty, whereas the French will accept uncertainty better and will be more willing to take risks. The French will also have less stress, as the rules are not that strict and they will be hard-working only when needed, therefore, times where there is nothing to do for employees, will be tolerated. The fact that the South Africans have a high uncertainty avoidance with their rules, the need to be busy, the inner urge to work hard and high stress, can lead to cultural conflict that will influence the success of the cross-border acquisition. The final dimension of culture, namely masculinity, indicated that the difference between the French (64) and the South Africans (78) was not that immense. The South Africans with the higher masculinity index will be more intent to live in order to work, the managers will be more decisive and assertive, they will stress equally, there will be competition among colleagues and when there is conflict it will be fought out. Cultures with low masculinity will be more intent to work in order to live, managers will strive for agreement, they will stress equality and conflict will be resolved by compromising and negotiating. The French have more characteristics of both masculinity and femininity. Cultural conflict may therefore arise between the cultures because the South Africans are more intent on work and the French are more intent on life characteristics.

The ***second objective***, as stated in chapter 1 (refer to section 1.5 on page 4), was to investigate the impact that cultural differences have towards an accounting perspective using Gray's accounting values. The results indicate that the participants from Company A (the French and the South Africans) can be divided into the same accounting values according to Gray. These are professionalism, flexibility, optimism and transparency. Although the participants are in the same categories, there are still differences in the level of accounting values. The employees in Company A will be very professional in their work and will be able to adapt to certain situations as they favour flexibility. Company A will also favour an optimistic, laissez-faire and risk-taking approach and a transparent open approach to accounting. In three of the accounting values, the French had a higher level of professionalism, flexibility and optimism. The higher level of individualism and lower level of uncertainty avoidance contributed to the fact that the French will follow a higher level of professionalism than the South Africans. The fact that the French have a lower level of uncertainty and a higher level of individualism contributed to the fact that they rank higher in terms of flexibility and optimism, because they are more willing to take risks and to adapt to certain situations. The fact that all four the cultural dimensions (power distance, individualism, uncertainty avoidance and masculinity) apply for the South

Africans indicated that they will rank higher in terms of transparency as opposed to only three dimensions (uncertainty avoidance, individualism and masculinity) applying for the French. Although the difference between the accounting values is not that big, it is still very apparent that the cultural dimension does affect the level of the accounting values.

The ***third objective*** of this research (as stated in chapter 1, section 1.5, page 4) was to interpret the potential impact of a cross-border acquisition on a company taking the cultural differences into account. The above findings indicate that culture does play a crucial part in cross-border acquisitions. The French will be very individualistic and will not take advice from subordinates; they will also be willing to take more risks and to value family above work. The South Africans expect that they will be consulted in decisions and be seen as part of a group. They will also avoid risk at all time and would value work above family. In order for the cross-border acquisition to be a success, these cultural differences will need to be addressed. Looking at the accounting perspective, the results did not show that big a difference in the accounting values – there was a difference on the level of the dimensions. The results indicated that the French will be more professional, flexible and optimistic in their accounting approach, whereas the South Africans will be transparent. The empirical results concluded that culture does affect a cross-border acquisition and that the cultural dimensions will affect the way in which accounting and decision-making are done.

Considering the cultural differences, it was evident that there are differences between the cultures, which may lead to cultural conflict and may hamper the success of the cross-border merger or acquisition. In terms of the cross-border acquisition of Company A, the financial director indicated that the holding company made use of a facilitator who acted as a mediator between the South Africans and the French. The mediator was French and as such he had very limited experience of the South African culture or how they do things, but he had a clear objective in that he had to "influence" all processes and practices to see what can be challenged within current laws and cultural constraints. As part of the South African management team, a key phrase in this stage was "no holy cows", meaning that all processes and procedures were challenged so that only the best, either French or

South African, was maintained or incorporated. This could be a key reason why the acquisition of Company A was such a success.

6.3. Limitations to the study

There are a number of limitations to the research study. Firstly, the general question of the ability of questionnaire surveys to reveal understandable and cultural characteristics is a limitation. It is assumed that the questionnaire responses were truthful and meaningful and that reported attitudes, perceptions, beliefs and values have significance for the respondents in terms of social action. Secondly, a further limitation is that it is assumed that the responses to the questionnaire items reflect substantive constructs rather than reactions to linguistic signals. Thirdly, the fact that there were only 21 participants in the study is another limitation that one needs to consider. Finally, another limitation with regard to the participants is that there were only five participants who represented the French culture. Considering, however, that a response rate of 84% was achieved, it may be argued that in the specific case of Company A, the 21 participants do provide a realistic case analysis of the company.

6.4. Recommendations for further research

Further research in this field, focussing on different companies and cultures, would also be beneficial, as it could provide additional valuable assistance to companies wishing to participate in a cross-border merger or acquisition. The research showed that M&As are very popular and still growing in numbers. The more accurate and relevant the information, the bigger the chances are that companies will investigate the cultural fit before entering in the actual deal. Further research can also be done on how to enhance the due diligence process and methodology, in order to take the cultural differences and challenges into consideration.

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APPENDIX 01

VALUE SURVEY MODULE 2008: ADJUSTED QUESTIONAIRE

Instructions:

Please answer all questions objectively and tick the correct answer according to you.

Notes:

All the information gathered will be treated as confidential.

PART A: Individual information of staff

1) Are you?
   - Male [ ]
   - Female [ ]

2) How old are you?
   - Under 20 Years [ ]
   - 20 – 24 Years [ ]
   - 25 – 29 Years [ ]
   - 30 – 34 Years [ ]
   - 35 – 39 Years [ ]
   - 40 – 49 Years [ ]
   - 50 – 59 Years [ ]
   - 60 Or Over [ ]

3) What is your nationality?

   ____

4) What is your nationality at birth (if different)?

   ____

5) At your current company are you working in the?
   - Accounting Function [ ]
   - Management Function [ ]

6) How long have you been in the management/accounting function at your current company?
   - <5 years [ ]
   - 5 – 10 years [ ]
   - More than 10 years [ ]

7) What is your highest academic qualification?
   - High School [ ]
   - Diploma [ ]
   - University Degree [ ]
   - Masters [ ]
   - PhD [ ]

8) Please indicate any (all) professional accounting designations?
   - Chartered Management Accountant (CIMA) [ ]
   - Chartered Accountant (SAICA) [ ]
   - Associate Certified Chartered Accountant (ACCA) [ ]
   - Certified Internal Auditor (CIA) [ ]
   - Other (Please Specify)

   ____

9) How long have you been in the accounting/auditing/finance profession?
   - <5 years [ ]
   - 5 – 10 years [ ]
   - 10+ years [ ]

PART B: Value Survey Model Questions

Please answer questions ten (10) to nineteen (19) using the following scale:

1 =Of Utmost Importance

2 = Very Important

3 = Of Moderate Importance

4 = Of Little Importance

5 = Of Very Little or No Importance

Think of an ideal job, disregarding your present job. In choosing an ideal job, how important would it be to you to:

10) Have sufficient time for your personal or home life

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

11) Have a boss(direct superior) you can respect

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

12) Get recognition for good performance

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

13) Have security of employment

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

14) Have pleasant people to work with

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

15) Do work that is interesting

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

16) Be consulted by your boss in decisions involving your work

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

17) Live in a desirable area

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

18) Have a job respected by your family and friends

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

19) Have chances for promotion

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

Please answer question twenty (20) using the following scale:

1 = Always

2 = Usually

3 = Sometimes

4 = Seldom

5 = Never

20) How often do you feel nervous or tense

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

Please answer question twenty-one (21) using the following scale:

1 = Very Good

2 = Good

3 = Fair

4 = Poor

5 = Very Poor

21) All in all, how would you describe your state of health these days

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

Please answer questions twenty-two (22) using the following scale:

1 = Never

2 = Seldom

3 = Sometimes

4 = Usually

5 = Always

22) How often, in your experience, are subordinates afraid to contradict their boss (or students their teacher?)

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

Please answer questions twenty-three (23) to twenty-five (25) using the following scale:

1 = Strongly Agree

2 = Agree

3 = Undecided

4 = Disagree

5 = Strongly Disagree

To what extent do you agree or disagree with each of the following statements?

23) One can be a good manager without having a precise answer to every question that a subordinate may raise about his or her work

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

24) An organization structure in which certain subordinates have two bosses should be avoided at all cost

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

25) A company's or organization's rules should not be broken – not even when the employee thinks breaking the rule would be in the organization's best interest

- 1 [ ]
- 2 [ ]
- 3 [ ]
- 4 [ ]
- 5 [ ]

THANK YOU FOR TAKING TIME TO COMPLETE THE QUESTIONNAIRE

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APPENDIX 02

26 July 2010

To Whom It May Concern:

REQUEST: RESEARCH IN FULFILLMENT OF MASTERS DEGREE IN MANAGEMENT ACCOUNTING

You are invited to partake in an academic research study in fulfilment of the requirements of a master's degree in management accounting. A key objective of the research investigates the impact that the cultural differences have towards an accounting perspective, taking into account the influence of a cross-border acquisition. As part of the study, I would require an interview with a representative of the entity, to discuss the questionnaire in order to obtain the required information.

The following should be noted:

Each participant will remain anonymous. I am prepared to sign a confidentiality agreement with the entity.

The results will be used for academic purposes.

The results of the research will be made available to the entity's management team upon request.

Please contact Mr. Stefan Stander at 083 978 7471 if you have any questions.

I think the topic of the proposed research is a dynamic one with cross-border acquisitions increasing over the past decade, and the fact that cultural does have an effect on the success of the merger/acquisition. I hope you will consider this request favourably.

Yours sincerely

Stefan Stander	Study leader: Prof. Pieter Buys

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APPENDIX 03

26 July 2010

QUESTIONNAIRE FOR EMPIRICAL RESEARCH

To whom it may concern:

In the past 20 years, the volume of cross-border acquisitions has increased nearly three times faster than the volume of domestic acquisitions. Compared to domestic acquisitions, cross-border acquisitions present greater challenges for a buyer because cultural values and behavior patterns are unfamiliar to foreign companies. One of the important aspects of cross-border acquisitions is the impact of cultural differences between bidder and target countries and how they are managed. A key objective of the research investigates the impact that cultural differences have towards an accounting perspective, taking into account the influence of a cross-border acquisition.

This questionnaire will be discussed during structured interview with the representative. Participation to this project is entirely voluntary and you can withdraw at anytime. I hereby kindly request that you spare a few minutes to read through these questions to give you an indication of the topics to be discussed during the interview scheduled with you.

The questionnaire is divided into two sections:

Section 1: Individual information of staff

Section 2: Value Survey Model Questions (Geert Hofstede)

All information provided by you will be treated as confidential and aggregated. It will therefore not be possible to identify any individual participants in the report.

Your cooperation is highly appreciated.

Kind regards

Stefan Stander Study leader: Prof. Pieter Buys

Will you be interested in receiving feedback on the results and recommendations arising from this research?