

Confucianism-based Organization Value & Post-Merger Syndrome in Cross-border M&A: How Family-system Principle Hinders Communication in Cross-border M&A

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Abstract

This paper aims to examine the relationship between the principles of Confucianism, especially the 'Family-system' and Post Merger Syndrome (henceforth PMS). This research is a cross-cultural study and examines whether the Family-system principle leads to lack of communication between the target and acquiring Company. It is an empirical study in which data were collected from two major Korean banks that were acquired by Western companies. In the research, it was confirmed that "emphasis on Harmony in the target company," "Loyalty to the original superior," and "Trust between the target company members" strongly enhance PMS. Some limitations, however, like the conversion of culture and bi-cultural continuum were observed. Despite such limitations, this research considerably provides a new approach in cross-cultural studies which focus not only on the positive aspects of Confucianism principles, but also on their dark sides. Moreover, this paper scrutinizes the Family-system-principles and examines which of the principles lead to PMS.

Keywords: Confucianism, Post-Merger Syndrome, Cross-border M&A, Family-system

1. Introduction

Cross-border mergers and acquisitions (M&A) has sharply increased in number in recent years. (UNCTAD, 2007). Despite its dramatic increase, not many papers examine the relationship between PMS and the Family-system principle of Confucianism. Though many studies have observed Confucianism and its related business issues, not many researches focused on the Family-system principle. In fact, Confucianism and its related business issues were handled mostly to analyze the success of the Five Dragons or were simply observed based on the cultural fitness perspective (Datta & Puia, 1995; Morosini, Shane, & Singh, 1998; Weber, Shenkar, & Raveh, 1996). Recently, the operational integration of the human side of M&A are emphasized to understand the cultural issues in Cross-border M&A. For example, Aguilera and Decker (2004), Stahl & Mendedhall (2005), Stahl and Voigt (2008), studied about the relationship between human resource management and culture. Froese and Park (2008) and Joens et al. (2007) explored the role of culture in Cross-border acquisition in South Korea. Not many studies, however, deal with a specific philosophic principle. In this study, I especially focus on the Family-system principle, which is the prototype of East Asia and at the same time, a great thinking of the Eastern society (Suen, Cheung, Mondejar, 2007). MacFarquahar (1980) firstly mentioned the Family-system principle which he thought is the prototype of East Asian organization. Indeed, many East Asian organizations are following the Family-systems and many cultural traits still remains in East Asian organization (Klopf, 1992). For instance, the relationship between Ruler-Subordinate is usually regarded as a relationship of Parents-Child (Chen & Chung, 1994) in East Asian organization. Up to present, the Family-system principle was regarded as a positive factor that enhances harmony and prevents conflict in an organization (Hwang, 1989; Jacobs, 1979). I designed this paper, however, to specifically show the negative side (PMS) of Family-system when a Western company acquires a Family-system-based East Asian company.

In order to examine the relationship between Family-system principle and PMS, I gathered data from the financial sector from year 2008 to 2009 in South Korea. The data were collected from two South Korean banks: *Hanmi Bank* which was acquired by *Carlisle* in 2000 and the *Korea First Bank* which was acquired by

Newbridge Capital in 2005. M&A swept the Korean financial sector, which had undergone a number of M&A since the 1997-98 financial crisis. Along with the operational integration of the businesses, the *Citi Bank* case illuminated the importance of cultural integration during the post-merger period. During the integration of the *KorAm Bank* and *Citi Bank*, the two target companies, faced challenges in integration. Ii Yen, Managing Director of *Moody's Asia, Financial Institution Group*, mentioned that the hardest part of integration is cultural. Indeed, since the launching of *Citi Bank Korea* in November, the labor unions of the former *KorAm Bank* and *Citi Bank* have often clashed with the management team. Kim Tae-Yeon, the then Vice Chairman of the Labor union at *Citi Inc.*, represented 310 former *Citi Bank* employees and he said that this is the kind of situation where everyone is unhappy. Nowadays *Citi Bank* and *KorAm Bank* employees have set up a separate labor union. Kim also commented that even though signs of *Citi Bank Korea* can be observed everywhere, it was still hard to feel part of the company (Kim, 2005)

2. Theoretical Backgrounds and Hypotheses

2.1 Family-system principle and PMS

Culture is one of the most important factors to consider in M&A. This is because a Cross-border M&A deals with not only the differences between two organizations, but also the national culture (Calori et al., 1994; Cartwright & Cooper, 1993; Lubatkin et al., 1998). Therefore, integrating two very culturally different companies deem much more complicated than the so-called 'normal' M&As.

Confucianism is a Chinese ethical and philosophical system that is deeply embedded in East Asian culture. Almost all of the cultures and countries in East Asia are strongly influenced by Confucianism. China, the origin of Confucianism, diffused the religion-like philosophy to Korea, Taiwan and Vietnam. Yum (1988) argued that in East Asia Confucianism has been the basic social and political value system for over 1,000 years and its common cultural roots that trace back to Confucianism serve as standards to people in East Asia. Confucianism is permeated in the media, taught in schools and praised by officials in East Asia. Therefore, Bond (1996) and Tu (1996) defined Confucianism as a common cultural trait that controls not only the attitude of the people but also their values. Many Western studies researched the cultural traits of Confucianism and tried to epitomize the rapid economic growth of East Asia, the Four Dragons (Note 1). Hofstede and Bond (1988) mentioned the relationship between Confucianism and the economic growth of East Asia, and in doing so they used the term "Confucianism dynamism" to illustrate the relationship between Confucianism and economic growth. Another main stream of Confucianism studies in business is about communication. Yum (1988) wrote in "*The impact of Confucianism on Interpersonal Relationships and Communication Patterns in East Asia*" that the interest in growth is unexpectedly high compared interest in other related fields. For instance, Chen and Chung (1994) explored the communication pattern and studied how Confucianism influences the communication patterns within an organization. They found that the principles influenced interpersonal relationship within an organization. Then why do people stick to a specific principle, the family-system principle, in order to explain PMS?

Eastern organizations imbue many Family-system values (principles) that can be easily observed in the society. For instance, a superior in a company is usually regarded as parents, while subordinates are regarded as children. The expected obligation also follows the Family-system. Like the relationship between father and son, the superior has certain responsibilities or obligations such as protection and holistic concerns for subordinates, while employees have obligations to be loyal and committed (Chen & Chung, 1994). Just like a father takes care of his children, and the children obey their fathers' words, the superior considers the welfare of his subordinates, and shows paternalistic leadership. Likewise, the subordinates show obedience, Loyalty and commitment in an East Asian company, and the relationship within the organization is based on the Family-system principle. In such Family-system principle-based organizations, the subordinates are likely to show high cohesion and Loyalty to their superior and the organization to which he or she belongs. Therefore, Zaheer, Schomaker and Genc (2003) argued that if the target company is based on Family-system culture, Post Merger Integration (henceforth PMI) seems more difficult than other types of M&A. In essence, it can be concluded that changing one's occupation isn't just a matter of choice in East Asia, but that it has the meaning of showing Loyalty to other parents or changing the family. It is no surprise that East Asian society incorporates a limited number of organizations.

2.2 Lack of communication leads to PMS

It is essential to understand the conditions of PMS that leads to successful PMI. Especially, a discreet integration strategy is expected where different national and organizational cultures exist. This is because the cultural clash brings M&A field deals with a double clash, which tends to activate the tension between both parties. Zaheer, Schomaker and Genc, (2003) argued that if the target company's culture is based on a clan society, PMI seems

more complicated than any other PMIs. Moreover, Mael and Ashforth (1992) added that such a phenomenon is because a company with a Family-system culture tends to show higher organizational identity that triggers higher unity with the organization. Furthermore, a Family-system-principle-based organization expresses more “I” versus “They” discrimination, it is observed that if the target company’s cultural background is highly influenced by a family-system principle, the egoistic behavior and high antagonism to the acquiring company accelerates after the merger (Hur & Hur, 1988). In essence, the target company regards its original company as “I” by showing higher cohesion with “I” while seeing the acquiring company as “They”. Larsson and Finkelstein (1999) views such: “I” versus “They” discrimination as a seismic of PMS and Gammelgaard, Husted and Michaliova (2004) argued that such discrimination generally leads to communication problem where the target company’s employees simply refuse to communicate with those in the acquiring company.

2.3 The effect of communication on PMS

PMS is the side effect of a PMI failure where the employees of the target company face unstable emotion such as uncertainty, anxiousness, and insecurity to mention a few (Buono, Bowditch, & Lewis, 1985; Marks & Mirvis, 1985; Mirvis & Marks, 1986; Sales & Mirvis, 1984; Schweiger & Walsh, 1990). Such instabilities are dysfunctional outcomes of an M&A and it happens when the acquiring company tries to force the other company’s employees to follow their culture. Not surprisingly, Ashkenas et al (1998) denoted such a syndrome as ‘psychodrama’ that reflects the feelings of the target company. Since PMI and PMS are one of the most sensitive issues in the field of M&A, PMI are usually regarded as challenging tasks by the managers (e.g., Jarnagin & Slocum, 2007). Many previous studies expose the failures of PMI. Fairfield-Sonn, Ogilvie, and DelVecchio (2002) Newman and Krzystofiak (1993) studied the relationship between job satisfaction and failure of PMI. Fried, Tiegs, Naughton, and Ashforth (1996), Newman and Krzystofiak (1993) studied the relationship between organizational commitment and PMI failure, and Morosini et al (1998) examined the relationship between financial performance and PMI failure. Interestingly, however, effective communication can prevent even the worst ‘psychodrama’.

According to previous studies, communication was seen as an important tool to manage a change like M&A. Young and Post (1993) found in a study that communication was important to make employees less resistant to changes. This is because communication usually homogenizes the different cultures and facilitates the understanding of other’s cultures (Schein, 1993), facilitates co-operation between multiple cultures (Risberg, 2001), and functions to produce and negotiate meaning for involved individuals (Davis & Jasinski, 1993). A breakdown in communication, thus, tends to trigger cultural clashes and brings tension to the workplace. No wonder Schweiger and Denisi (1991) emphasized communication as an important facilitator in managing M&A.

2.4 Hypotheses

2.4.1 Harmony is the first virtue

Numerous Chinese sayings include the word ‘Harmony’ as a mediator of conflicts. Some examples are as follows: “Harmony is valuable,” “quiet in mind and peaceful (harmonious) in disposition,”(Note 2), “if the family lives in Harmony, all affairs will prosper.” I especially focused on the last saying (家和万事成), which means as previously explained: if the family lives in Harmony, all affairs will prosper.

Harmony is especially valuable in Family-system principle and this reflects the core principles of Confucianism as well. Harmony has influenced East Asian people’s attitude and society, and served as the standard for social interaction (Bond, 1996). During the civilization in China, Confucianism spread to nearby countries such as Korea, Japan and Taiwan for thousands of years (Chang, 1997). For example, Korean leadership is heavily influenced by the key value of social Harmony known as *inhwa* (Chen, 1995; Mensik et al., 1999). *inhwa* is the shortcut to reaching social Harmony. *inhwa* was also weighted high as a qualification for a CEO, in Korean (Chang, 1983). Japanese word “*wa*” means, a sense of balance and Harmony to reach a goal and “*he*” is the Chinese word that stands for Harmony. Namely, “*inhwa*,” “*wa*” and “*he*” show how big the idea of ‘Harmony’ is and how important ‘Harmony’ has been regarded in East Asian cultures and organizations. Harmony is also deemed as a mediator in conflict.

Hwang (1997-1998) argued that Confucianism emphasize the value of Harmony. Japanese generally accept social Harmony as a principle of justice, and regard it as a more important value than fairness (Ohbuchi, 1998). And Cho and Park (1998), for example, argue that group Harmony is the most important managerial value in Korean firms. All in all, the Chinese saying 家和万事成 also includes the meaning of 社和万事成 which means, “if the company lives in Harmony, all affairs will be prosper.” Pursuing Harmony here, however, doesn’t mean the Harmony between the target and acquiring companies, it only applies to the target company. Since East Asians view a company as a family, an M&A usually occurs between those with power asymmetry and M&A is

perceived as an attack of the more powerful family on the weaker (Chew & Sharma, 2005). Therefore, the pursuit of Harmony, where the target company's culture is based on the Family-system, is expected to hinder the integration of two organizations, especially if the Western company is the acquiring company

Ultimately, if the target company is from a Family-system and if the target company acquired it, pursuing Harmony may hinder communication on the part of the target company's employees, consequently leading to PMS.

Hypothesis 1a:

Emphasis on Harmony among the original members may cause PMS whose corporation background is Family-system,

Hypothesis 1b:

Emphasis on Harmony among the original members may cause communication problem and eventually it may lead to PMS, whose corporation background is Family-system,

2.4.2 Loyalty to the original superior and commitment

Confucianism emphasizes Loyalty to one's family, spouse, and to people in higher positions. Since East Asia is a Family-system based society, showing Loyalty, respect and obedience to the superiors like one's father, CEO, or TMT is the social norm. However, the emphasis on Loyalty to superiors seems to increase after M&A. The main reasons behind this outcome can be found in the traits of Confucian relationships.

"Showing Loyalty to the Superior" however, is not a one-side responsibility that is assigned to the subordinates. The relationship between the subordinates and the superior is a double-sided, reciprocal relationship. Usually, a superior has certain responsibilities or obligations such as protection of the subordinates and holistic concerns for subordinates, whereas employees have obligations such as Loyalty and commitment (Chen & Chung, 1994). Namely, if superiors protect and care for their employees like parents do, the subordinates are obligated to show their full Loyalty and Trust to their superiors, and commitment to the organization. Many ethics and rules of Confucianism have copied into the East Asian organizations. For instance, particularistic and reciprocal relationships are found in Eastern society.

Particularistic relationship is a set of specific communication rules and patterns that provides an individual concern. This relationship usually forces individuals to focus on where he or she belongs. Chen and Chung, (1994) argued that this relationship can also extend into many other relations such as those between friends, co-workers and supervisor-subordinate. Due to particularistic relationships, people who belong to a company pay particular attention to their group, co-workers and subordinates. It also builds humane relationship and tends to act like 'glue,' sticking employees to their company or group. Hwang (1989) and Jacobs (1979), therefore, argued that particularistic relationship prevents conflicts and embarrassing situations in East Asia, and Chung (1994) insisted that particularistic relationship has the power and potential to control an organization's longevity.

Furthermore, a reciprocal relationship is when people are in debt (not necessarily financially) or receive gifts from others, and when they find an opportunity to return the favor (Shiang, 1982). This has been observed, especially, in a hierarchal society like East Asia. For instance, if a subordinate receives protection or social aids from a superior, then the subordinate has the responsibility to show their Loyalty and gratitude. Another approach in explaining 'Loyalty to the superior' is *jen* (pronounced *ren*). *Jen*, one of the most important principles and values in East Asian philosophy (Chang, 1955), is the cardinal concept of Confucian teaching, where "love" is the core concept among other included virtues (Chen & Chung 1994). To oneself, *jen* is self-restraint and self-discipline; to others, benevolence; to parents, filial piety; to elders, brotherly love; to personal duty, Loyalty; and to interpersonal behaviors, Trust (Chen, 1987). Basically *jen* is interlaced with two other concepts that are also the core principles to Confucianism: *yi* and *li*. *Yi* refer to righteousness, faithfulness and justice, and Loyalty in the process of social interaction. *yi* serves as a guidance of behavior and connection of all appropriate interactions (Chen & Chung 1994). *li*, on the other hand, is the exterior concept of *jen*. *li* refers to propriety, rite, and respect of social norms. Yum (1988) argued that *li* is "the rule of universe and the fundamental regulatory etiquette of human behavior." In short, *jen* offers the guidelines in behavior and building relationship between superiors and subordinates, in modern organization (Chen & Chung 1994). In addition, *yen* and *li* refer to interpersonal relationship, which are usually complementary and family based system. Like a family, employees are tied in a parents-child relationship. Like a father takes care of his children and children obey to their fathers' words, the superior is concerned about the welfares of subordinates, and shows paternalistic leadership, while the subordinate shows obedience, Loyalty and commitment. Such Family-system is usually observed in a society where close relationships and high cohesions among members of organization are

emphasized, like in East Asia.

Hypothesis 2a:

Emphasis on “Loyalty to the original Superior” may cause PMS whose corporation background is Family-system.

Hypothesis 2b:

Emphasis on “Loyalty to the original superior” may cause communication problem and eventually it lead to PMS, whose corporation background is Family-system.

2.4.3 Trust among target company members

Since a PMS is the integration of two families, I assume that M&A of an East Asian company may face severe “We” vs. “They” discrimination. “We” vs. “They” discrimination is an in/out group distinction behavior whereby regarding the members of their own company as an in-group and regarding the members of the other company as an out-group. What is more interesting is that such a distinction is strongly observed in South Korea, therefore Hur and Hur (1988) argued that Koreans have a tendency to show egoistic behavior to the out-group members. Moreover, such discriminations are usually linked with the communication problems. Larsson and Finkelstein (1999) viewed rumors as a seismic of communication problems that generate PMS. Pappanastos, Hillman and Cole (1987) insisted that a profuse and frequent communication relieves rumors. I assume that the employees of the target company may league together and show high Trust and cohesion to their own company, while expressing distrust and hostility to the acquiring company (Hofstede & Bond, 1988) by refusing to communicate with its members. Thus our third Hypotheses is:

Hypothesis 3a:

Emphasis on “Trust among members” may cause PMS whose corporation background is Family-system.

Hypothesis 3b:

Emphasis on “Trust among members” may cause communication problem and eventually PMS, whose corporation background is Family-system.

3. Data and Method

3.1 Sample and Data

I collected the samples from *Hanmi Bank* which was acquired by ‘*Carlisle*’ in 2000 and ‘*Korea first bank*’ which was acquired by ‘*Newbridge Capital*’ in 1999. I selected this data because it was one of the biggest Cross-border M&A that was executed in South Korea. For example, the M&A process of *SC First bank* was 3.4 trillion KRW (cash) deal between *Newbridge Capital* and *Korea first bank*. To test my hypotheses, I gathered survey data of two years, from year 2008 to 2009. This is because 2008 is the year when the global financial crisis came about. I chose the financial sector as a research target, because the financial sector was closely related to the global financial crisis. Moreover, since employees, especially in the collectivistic society such as in East Asia, have the tendency to not give negative comments about their company. All surveys were conducted anonymously. To test my hypotheses, I ran an empirical test, using statistical analysis software, SPSS 16.0. The collected 470 samples (year 2008: 184 samples, year 2009: 286 samples) and the demographical data are in *Table 2*.

3.2 Independent Variable

3.2.1 Emphasis on Harmony

In order to examine Harmony within an organization, I needed to test how bad personal and public relationships overlap within employees’ relationships. This is because, usually the relationship in East Asia are settled by having informal relationship between people. For example, in South Korea there is a company culture that is called *hoesik* or ‘after work dinner.’ This culture is not simply about having dinner or a meal just for fun. For numerous of Korean workers, it is an extension of work and an opportunity to build close relationships with co-workers and strengthen social ties (Yang, 2006). Moreover, the main purpose of *hoesik* is to build an informal relationship and thereby creating *inhwa*, which means Harmony. In order to examine intra-company Harmony, I examined how well the employees interacted with the initial members, who belonged to the target company. To test the Harmony level between the employees, I asked them how often they met outside work for the purpose of building personal relationship. I also asked them how often they made personal contacts, and how many communication channels they used for interacting with their co-workers. Since all of the data were about the target company’s employees, I limited the scope of the research to the reaction of the target company’s employees. In each section of the survey questionnaires, I indicated who the target is, or what each respective

section is about. For example, in the Harmony section, I indicated on the survey questionnaires beforehand that the section is about Harmony with members of the target company and not with co-workers who belong to the acquiring company.

3.2.2 Loyalty to the Superior

Since people in East Asia manifest reciprocal and paternalistic relationships, I used social support as an indicator of Loyalty from employees towards their managers. For example, the more the career and social support to the subordinates of the target company receives from the original superior, the higher the Loyalty level. To examine the Loyalty level I asked them whether the managing staffs are always available, concerned about employees' illness, have compassion and sympathy, and are supportive, to mention a few.

3.2.3 Trust among the members

I examined how the members of target company think about the coworkers who are from the acquiring company. By asking how often they use the word "We" over "They," and how the target company employees feel if the acquiring company member insults or gives negative comments to their firm. In addition, I asked them how often they meet with the people from the acquiring firm, just for creating and/or maintaining personal relationships.

For the examination of Trust level within the in-group, I asked the employees of the target company whether they were able to get useful information from the co-workers who were from the target company. I also asked the employees of the target firm, whether the initial co-workers of company helped them and listened to them carefully, more than the members of the acquiring firm. In addition, I asked them whether they were treated with Trust, and whether people of the acquiring company paid attention to them and treated them with faith.

3.2.4 Lack of Communication

Since I expect that lack of communication triggers PMS in Cross-border M&A, I asked the employees whether the problems regarding the M&A were openly debated with the acquiring company and whether communication improved operations to become freer.

3.3 *Dependent Variable.*

The dependent variable was measured by examining the openness of bilateral communication with the acquiring company's employees. I surveyed the employees of the target company and asked them whether information flowed upward or downward and whether they had any obstacles when communicating with the members of the acquiring firm. In measuring the two-way communication, I used information flow as an indicator of openness. The employees were also asked whether their opinions or ideas were considered with open mind. In examining the tendency of two-way communication, I examined the data according to the current positions of employees. For the PMS variable, I asked the employees whether they had wanted to quit their job or whether they are satisfied with their job after the M&A. I also asked them whether they felt that they were given more opportunities, such as education or promotion, after the M&A. Since Confucianism emphasizes heavily on education, I thought that if the employees are not provided with sufficient education opportunities, then the employees of the target company may be dissatisfied with the company and may consider finding a new job.

3.4 *Control Variables*

3.4.1 Nationalism

Nationalism is related to being hostile to other countries. Since East Asia is a collectivistic society (Hofstede, 1984), it usually shows higher cohesion than the Western society. It is also known that South Korea has a distinctive culture which is based on 'economic Nationalism,' a new form of protectionism against foreign ownership (Kim, 2007). Moreover, a collectivistic society like the one in South Korea has the tendency to protect its tradition and display antagonistic behavior towards other countries. Since our samples are on Cross-border M&A, I assumed that high Nationalism may accentuate hostility and discourage communication with Western company, which is the acquiring company in this case.

3.4.2 Global mindset

Global mindset indicates how well a person is open to different countries and their cultures. It refers to how open an employee is to foreign cultures, or how well he or she knows foreign languages, and how comfortable that person feels around foreigners. I specifically examined how well employees are able to accept Western culture when cooperating with foreign colleagues. If an employee has a more globalized mindset or better communication skills (English), then the member would have an easier time mingling with and adopting to the foreign organization's culture.

3.4.3 Tenure of the employees

Hambrick's (1992) argued that long tenure is significantly related with Loyalty and cohesion. This variable is measured by asking the employees of the target company how long they have worked for the company. In Korea, however, the age of the employees who are in higher positions tends to be older than those in the lower position. This is because the age usually equals to the position of the people, especially in a hierarchical society like South Korea. Therefore, the age variable was not controlled in this study, even the age and gender were standard control. Thus I omitted the age variable because I believed that this variable is already reflected in the tenure variable.

3.5 Estimation and Method

Initially, I collected 463 samples and then extract data relating to employees who belong in the target company. Since our research focused on the behaviors of the target company, I selected 379 data that were collected from the target company's employees. Firstly, I conducted factor analysis to cluster the questions that are highly correlated, and to examine the construct validity. I used the principle component analysis (VARIMX) and extracted the values with eigenvalue higher than 1. Secondly, I chose the variable with factor loading above 0.4. Lastly, I ran a reliability test and examined the Cronbach alpha, which indicates whether the questions that I have chosen responded to the employees without fluctuation.

I performed a simple linear regression by examining the relationship between in/out group distinction and Trust among the members of the target company. For *Hypothesis 1a, 2a, and 3a*, I ran multiple hierarchical regressions to test whether those principles affect PMS. And for *Hypothesis 1b, 2b and 3b*, I conducted a mediate regression analysis whether the lack of communication is the parameter between each variables and PMS.

4. Results

Table 1 presents descriptive statistics for each of the variable that I measured, and *Table 2* represents the bivariate correlation of each survey questionnaires.

I asked the employees who belong to the target company to examine how they think and behave when interacting with the colleagues from the acquiring company. In asking "Harmony with the target company members," I measured how often they interact and have meetings that enhance informal relationship (e.g., *hoesik*). The standard for extracting the variables were that eigenvalue was above 1.0 and factor loading was above 0.4. The entire component, for inner Harmony, was clustered into one component and the factor loading was above .4, which means that the communality was satisfied. Also the KMO (Kaiser-Meyer-Olkin) was .736, meaning that the factors were chosen accurately and each of the factors was strong enough to explain the correlation to other factors. Likewise, the factors of Loyalty, Trust were also all above .4, which means that the factors have excellent communality as well. The KMO of other factors were .811 for Loyalty, .717 and .808 for Trust. This indicates that the factors were highly correlated and well-chosen. Moreover, the results of Bartlett's Test of Sphericity were all .000, meaning that the model for factor analysis was fit and that the communality exists. From reliability tests, all Cronbach alpha were above .6, which means that the survey questionnaires were identically measured and asked to the employees of the target company. (*Table 3*)

After the factor analysis, I performed multiple regressions, which estimate the relationship between the three principles: Harmony, Loyalty to original superiors and Trust, and PMS. *Table 4* shows the Beta, t-value and significance of each variable. The R^2 of *Model 1* was 11%, and the relationship between the control variables and PMS were effectively controlled by the level of $<.05$ and $<.001$ while Tenure was not. Since Cross-border M&A is a consolidation of two different nationals and organizational cultures, I expected that the level of openness towards different foreign cultures may negatively affect the level of PMS. It is also confirmed that Nationalism influences PMS. This is because normally it is known that high Nationalism is related to high hostility towards foreign culture and usually hinders openness to foreign cultures. According to the result of *Model 1*, Global mindset and Nationalism were effectively controlled. *Model 2* shows the result of Harmony among the target Company members. The R^2 of *Model 2* was 25%, which was higher than that of *Model 1*. The result shows that the emphasis on Harmony between the target company members tends to yield PMS. The significance level of Harmony was $<.001$ ($t=8.45$) and the control variables (Global mindset, Nationalism) were still controlled under the significant level of $<.01$ and $.001$. The R^2 for *Model 3* was 32%, which is higher than *Model 2* and the significant level for "Loyalty to superiors" was $<.001$ ($t=6.38$), supporting *Hypothesis 2a*. The R^2 of *Model 4* was 37% and the p-value of Trust in in-group was $<.001$ ($t=5.14$), supporting *Hypothesis 3a*.

Ultimately, it means that the emphasis on Trust among the target company's member tends to yield PMS. In comparing the Beta value, I was able to know which variables mostly yield PMS. The Beta value of "Trust" was

$\beta=0.24$ and the Beta value of “Loyalty” was $\beta=0.23$. The Beta value of Harmony was $\beta=0.21$, which indicates that Harmony is the least influential among the three variables. The tolerance levels of all three variables were above 0.1, and that means no problems are found in Collinearity diagnostics. The Durbin-Watson measure was 1.491, which is close to the standard value 2. Since the value was not close to 0 or 4, it can be stated that there were no correlations between the residuals. Thus the regression models were fit for our research.

Table 5 shows the relationship between the three principles and PMS, where lack of communication is the moderator. The analysis was based on Three-Step Mediated regression analysis (Baron & Kenny, 1986; Van Dyne, Graham & Dienesch, 1994). The first row of Table 5 shows whether the “lack of communication with acquiring company’s member” moderates Harmony and PMS. Step1 shows that the relationship between Harmony and “lack of communication” was significant, and Step2 shows that the relationship between Harmony and PMS. Step3 is the result of a multiple regression analysis where I put Harmony and “lack of communication” as an independent variable. As the standardized Beta value of Step2 ($\beta=0.43$) is greater than Step3 (Independent) ($\beta=0.21$), it clearly shows that the variable on “lack of communication” effectively moderate Harmony and PMS. The t-value of Step1 is 14.35, 9.14 for Step2 and 3.79 for Step 3. Moreover, all steps were verified for the significant level of $<.001$. From the first mediate regression analysis, the following can be concluded: emphasis on Harmony among the members of the target company may lead to lack of communication with the acquiring company, and consequently it leads to PMS.

Hypothesis 2b is also strongly supported. In measuring the relationship between “Loyalty to the superior of the target company” and PMS, where “Lack of communication” is a moderator, the Beta value of Step2 was .49 while it was .30 for Step3. Since the Beta value of Step2 was weighted higher than that of Step3, It can be concluded that lack of communication is an effective moderator in this relationship. The t-value is also 17.71 for Step1, 11.02 for Step2 and 5.08 for Step3. These results show that all variables were significant.

Hypothesis 3b is also confirmed, showing that “lack of communication” is a mediator in examining the relationship between Trust and PMS. The Beta value of Step2 was .48, while the Beta value of step3 was .33. The t-value was 12.76 for step1, 10.48 for step2, and 5.71 for step3. In conclusion, if Trust exists among the target company’s members it leads to lack of communication with the acquiring company. And consequently such low levels of communication affect PMS.

5. Discussion and Limitation

Our results show considerable support for a cross-cultural perspective on M&A. In particular, two levels of cultural differences—national and organizational—are included where the impact on PMS was examined. Due to the lack of quantitative and empirical research in this area, (Stahl & Voight, 2005; Teerikangas & Very, 2006) I provided an empirical study by surveying East Asian employees whose company was acquired by a foreign firm. In analyzing the Family-system principle, I tried to explain logically why such a principle tends to lead to PMS. However, there still are many limitations.

Firstly, since the M&A in our samples were completed in year 2001 (*Citi Bank & Hanmi Bank*) and 2004 (*Standard Chartered Bank & Korea First Bank*), and the data were collected in year 2008 and 2009. Many employees have moved to other companies since then, and the majority of respondents were hired after the acquisition took place.

Secondly, Confucianism differs by nations. For example, Zhang, Harwood (2004) confirmed that Confucianism values are still upheld in China, Japan, Korea and Taiwan, but in different degrees. For instance, Japanese females are more conservative than Japanese males. Also Chinese and Taiwanese females and young Chinese endorse Confucianism more than the Japanese, Korean and Taiwanese counterparts do. Moreover, China remains as the most traditional Confucian society in regards to Harmony and social hierarchy. In addition to previous studies (e.g., Yang & Cheng, 1987; Zhang & Harwood, 2004), it is suggested that some core values of Confucianism, such as interpersonal Harmony are still deeply rooted, whereas some values like thriftiness are fading away. Therefore, Zhang et al (2005) argued the East Asian division should not be treated as a single cultural entity.

Thirdly, this research was based on a bi-cultural continuum (i.e., Western-Eastern) which imitates many other cultural approaches. Even though most of the cross cultural studies were based on geographical and/or cultural proximity (Cross, 1995), it is still risky to take a bi-cultural continuum perspective by ignoring the multiple variations between Western or Eastern hemisphere (Bond, 1996). Moreover, some Western societies were also influenced by Confucianism in 17th century Europe, like France, Germany and England (Rowbotham, A.H, 1945). And many European thinkers of the period were interested in the integration of the morality system of Confucianism into the Western civilization (Parker, 1978; Hobos, 2004). Therefore it is hard to conclude that

only East Asia was influenced by Confucianism.

Therefore, in future researches, it would be useful and helpful to examine the same model, but with a Western company as the target company. Since the world is undergoing rapid globalization and has shrunk in some aspect due to advances in technology, I expect more convergence of the Western and East Asian cultural values to take place in the near future.

Moreover, I propose to test the hypotheses again, with the samples from the acquiring company. Even though “We” over “They” antagonism is solely discovered in the target company, it would be useful to test the model where the focus is on the acquiring company.

In addition, even if the control variables are effectively controlled, I solely focused on the human traits that I thought were highly correlated with PMS. There are, however, many other factors that could influence PMS. For instance unequal company size (Hambrick & Cannella, 1993), unequal resource endowment (Greenwood et al, 1994; Buono & Bowditch, 1989; Pricilla & Veiga, 1994) and “different Year” also lead to failure in M&As. Thus, I propose that more control variables, such as company size or resource endowment that focus not just on the traits of the company and the industry itself, to be used.

6. Conclusion

Ultimately, our findings provide considerable support for our cross-cultural research model. In doing our research, I was able to find out how PMS should be treated and administrated, in relation to the two types of cultures. In our research, I chose a culture-specific approach and tried to find the causes of PMS from several specific principles. I don't assert that the three principles affect “lack of communication” and PMS, solely; there could be more principles or a combination of principles these days. I also don't state that Confucianism is a representative philosophy today because we are living in the 21st century and the global community got closer. This research, however, provides considerable insight by focusing not only on Confucianism itself, but also its embedded principles. This study is a new attempt that tries to explain the failure of Post Merger Integration, and also provides a cultural approach in PMS studies. In analyzing specific principles of a certain philosophy, I believe that people might be able to understand the interaction between culture and people's behavior.

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Notes

Note 1. Japan, South Korea, Hong-Kong, Taiwan, and Singapore

Note 2. Chinese Harmony has a richer connotation, including such meanings as “on good terms with each other,” “gentle, mild,” and “peace.” (Foreign Language Teaching and Research Press, 1988).

Table 1. Demographic information

Personal situation	
Sex	Male 55.1% Female: 44.9%
Current Position	Employee: 24.5% Assistant Manager: 21.9% Manager: 21.1% General Deputy/Manager: 32.5% Executive: 0%
Which Department	Administration: 11.9% Marketing: 9.2% Sales: 1.8% Finance: 3.4% Planning: 48.8% R&D: 3.2% Others: 21.6%
How long he or she worked	Less than 2 years: 10.6% 3-5 years: 26.6% 6-10 years: 15.6% 11-15 years: 22.4% 16-20 years: 14.8% More than 21 years: 10%
Overseas experience	Yes: 83.4% No:16.6%

Table 2. Correlation Coefficient

Variable	Mean	S.D	1	2	3	4	5	6	7	8
1. Harmony	4.01	1.02	1							
2. Loyalty to SUP	3.56	1.31	.546	1						
3. PMS	3.28	1.46	-.037	-.083	1					
4. Lack of Communication	3.66	1.22	.594	.674	-.103	1				
5. Trust	4.00	1.25	.390	.475	-.143	.549	1			
6. Global mindset	4.12	1.23	.112	.139	.217	.035	.079	1		
7. Nationalism	5.07	1.31	.221	.272	-.261	.303	.409	-.093	1	
8. Tenure	3.34	1.51	-.018	.001	.023	-.027	-.022	-.007	.061	1

Table 3. Factor analysis

Harmony within Acquired firm	Com.	Loyalty to the Superior	Com.	In/Out Distinction	Com.	Trust	Com.
Frequently Meeting with the superior unofficially	.784	Concern of Ill-being	.928	Use of I vs. They	.867	Helping each other	.582
Frequently Outside meeting (Colleague)	.753	Concern of Ilfare	.918	Feeling insult if I hear negative thing about my company	.814	Pay attention after M&A	.818
Frequently Outside meeting (Superior)	.681	Compassion and sympathy	.887	I fell that I are isolated	.435	Treated with Trust and faith	.767
Frequently Having Hyeousik with Colleague	.675	Support when needed	.711	I think I are discriminated	.883	Not listen closely	.742
KMO: .736 Bartlett's test: sig .000 Cronbach α : .698		KMO: .811 Bartlett's test: sig .000 Cronbach α : .885		KMO: .737 Bartlett's test: sig .000 Cronbach α : .720		KMO: .808 Bartlett's test: sig .000 Cronbach α : .870	

Table 4. Multiple Regressions (Post Merger Syndrome)

Variable	Model 1	Model 2	Model 3	Model 4
Global Mindset	-0.14* (-2.48)	-0.16** (-3.07)	-0.17** (-3.45)	-0.17*** (-3.54)
Nationalism	0.39*** (6.26)	0.29*** (4.99)	-0.21*** (3.61)	0.13* (2.34)
Tenure	-0.01 (-0.37)	-0.00 (-0.14)	-0.00 (-0.13)	0.00 (0.08)
Harmony		0.46*** (8.45)	0.26*** (4.28)	0.21** (3.48)
Loyalty			0.31*** (6.38)	0.23*** (4.81)
Trust				0.24*** (5.14)
Constant	3.12*** (7.86)	1.79*** (7.86)	1.95*** (5.16)	1.75*** (4.76)
Observation	379	379	379	379
R ²	0.11	0.25	0.32	0.37
Adjusted R ²	0.10	0.24	0.32	0.36

†p<.10 * p<.05 ** p<.01 *** p<.001

Table 5. Mediate regression analysis (Lack of Communication)

Independent/Parameter / Independent	Steps of Mediate Regression Analysis	Standardized Beta value	t value	p value	R ²
Harmony/Communication/ n/ Post Merger Syndrome	Step 1	0.59	14.35	.000***	0.35
	Step 2	0.43	9.14	.000***	0.18
	Step 3 (Independent)	0.21	3.79	.000***	0.27
	Step 3 (Mediator)	0.37	6.68	.000***	0.27
Loyalty/Communication/ Post Merger Syndrome	Step 1	0.67	17.71	.000***	0.45
	Step 2	0.49	11.02	.000***	0.24
	Step 3 (Independent)	0.30	5.08	.000***	0.29
	Step 3 (Mediator)	0.29	4.90	.000***	0.29
Trust/Communication/ Post Merger Syndrome	Step 1	0.55	12.76	.000***	0.30
	Step 2	0.48	10.48	.000***	0.23
	Step 3 (Independent)	0.30	5.71	.000***	0.30
	Step 3 (Mediator)	0.33	6.36	.000***	0.30

†p<.10 * p<.05 **p<.01 ***p<.001

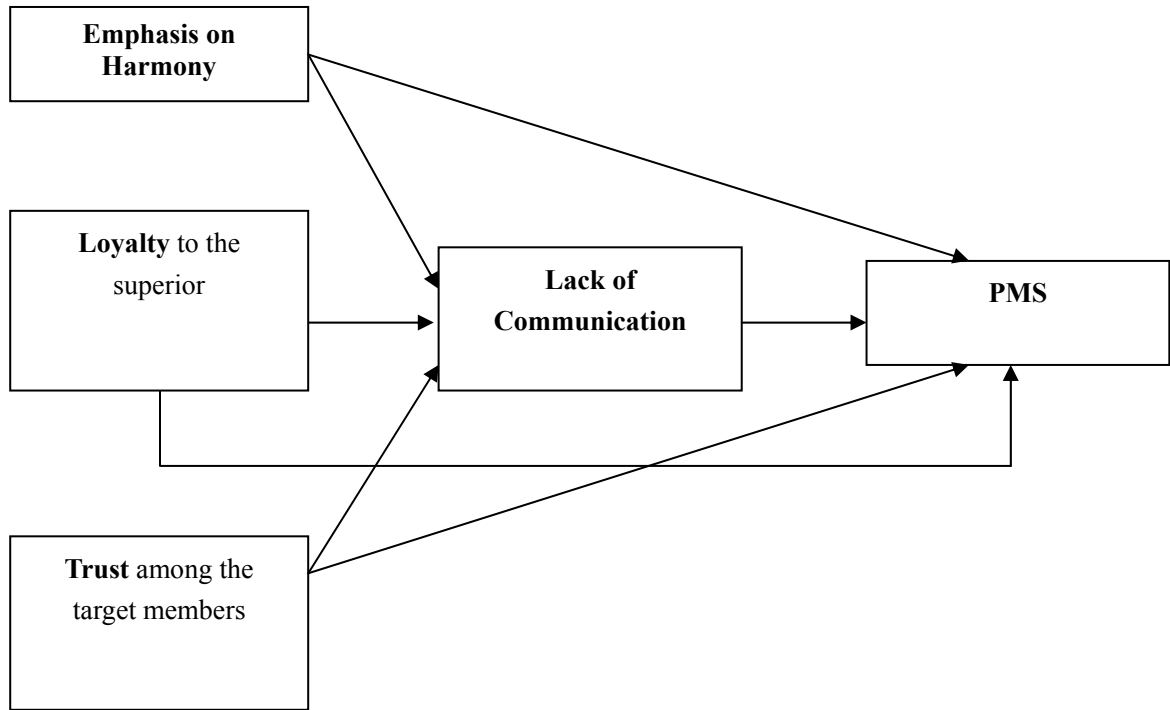


Figure 1. Research Model