

# National Culture and the Challenges in Managing Strategic Changes: A Case Study of General Motors and Daewoo

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## Abstract

This study has critically reviewed literatures that are related to Mergers & Acquisitions (M&A) and Managing Strategic Changes (MSC) which are vital knowledge for global companies in order to successfully penetrate and expand their operations worldwide. The aims of this study are to show how GM (General Motors), a leading car manufacturer in the United States, successfully merged with Daewoo, a leading car manufacturer in South Korea, and how they were able to manage changes strategically. The actual company's case study was used which obviously occurred in order to enhance better comprehension. General Motors Company is exemplified as one of the achieved outcomes of Mergers & Acquisitions in this study. Data was collected from related literatures, theories, and were analyzed respectively. The finding was very interesting, showing the heterogeneity of national culture among two nations influence Mergers & Acquisitions actions therefore understanding national culture is significant to managing changes effectively.

**Keywords:** Mergers & Acquisitions, Hofstede's National Cultural Dimensions, Managing Strategic Changes

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# วัฒนธรรมประจำชาติและความท้าทายในการจัดการ กลยุทธ์การเปลี่ยนแปลง กรณีศึกษาของเจนเนอร์ลมอเตอร์และแดวู

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## บทคัดย่อ

บทความนี้มีวัตถุประสงค์เพื่อแสดงให้เห็นความสัมพันธ์ของกลยุทธ์การควบรวมกิจการ (M&A) และกลยุทธ์การบริหารการเปลี่ยนแปลง (MSC) ซึ่งเป็นความรู้ที่สำคัญต่อบริษัทระดับโลกในการที่จะแข่งขันและขยายธุรกิจ在不同ประเทศ โดยการศึกษาในครั้งนี้ใช้กรณีศึกษาของเจนเนอร์ลมอเตอร์ซึ่งเป็นผู้นำทางด้านการผลิตยนต์ของสหรัฐอเมริกาที่สามารถควบรวมกิจการอย่างประสบความสำเร็จกับแดวูซึ่งเป็นผู้ผลิตยนต์ชั้นนำในเกาหลีใต้ ข้อมูลได้ถูกศึกษาจากรายงานบทความ ทฤษฎีและวิเคราะห์อย่างละเอียดจากการศึกษาพบว่า ความแตกต่างกันทางวัฒนธรรมระหว่างสองประเทศ มีอิทธิพลต่อกลยุทธ์การควบรวมกิจการและการเข้าใจวัฒนธรรมประจำชาติมีความสำคัญต่อการบริหารความเปลี่ยนแปลงในองค์กร

**คำสำคัญ:** การควบรวมกิจการ, มิติทางวัฒนธรรมประจำชาติของฮอฟสเต็ด, กลยุทธ์การบริหารการเปลี่ยนแปลง

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## **Relevant Background**

General Motors Company (GM) is a world leading car manufacturer which is based in Detroit, United States of America, with its long history going back to 1908. It was founded by William C. Durant. He started from a leading manufacturer of horse-drawn vehicles in Flint then forayed into the automobile industry and in a matter of years he acquired more than 20 companies. The company first internationalized began in Spain in 1982. GM is an American multinational automotive corporation. It employs more than 202,000 people in some 157 countries. The company produces cars and trucks in 31 countries. It sells and services for seven car brands; Buick, Cadillac, Chevrolet, GMC, Opel, Vauxhall, and Holden. Like GM, Daewoo Motor was founded in 1937 and it was a very important motorcar company in South-Korean. They produced small and fun compact auto but finally faced financial difficulties and went bankrupt. This study is essential as a precise case study for readers who look for the relation between M&A and Managing Strategic Change.

## **Literature Review**

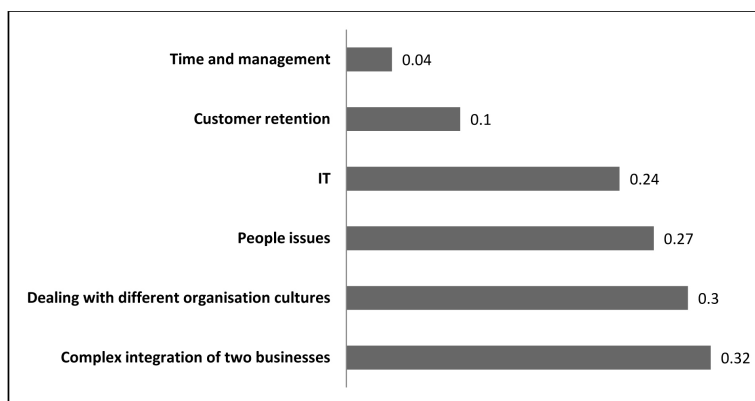
### **Mergers & Acquisitions (M&A)**

The International Encyclopedia of Social Science, vols. 9 & 10 expose that most countries have no good record of Merger and Acquisition development. However, it is on record that the first incidence in the United States of America happened between 1890 and 1904. The second incidence was in 1920 at the end of the World War I. The third incidence took place at the latter part of the Second World War (between 1939 and 1945) during which large number of manufacturing and mining firms, totaling about 2400, merged (Akinbuli, 2012). Johnson et al. (2008) define Merger as a mutually agreed decision for joint ownership between organizations. They define Acquisition as a casewhere an organization takes

ownership of another organization. Coyle (2000:2) describes mergers as the coming together of two companies of roughly equal size, pooling their resources into a single business. Johnson et al. further argue the motives for M&A typically involve the managers of one organization exerting strategic influence over the other. Fritz (1993), described acquisition as all the processes, terms, conditions and fulfillment adopted to purchase a small firm by a big and well established unit. There are different motives for developing through acquisition or merger. Christos (2012) points out that the objective of M&A is, access to growth as it is core competencies. Wang & Zajac (2007) explain that alliances and acquisitions are two important and distinctive means for the firm to access external resources. Acquisitions of companies can be either full or partial. In a full acquisition, the acquirer buys all the stock capital of the purchase company. In partial acquisition, the acquirer obtains a controlling interest, normally above 50% but below 100%. Pandey (1997:885) said that in acquisition, the target company becomes either a division or a subsidiary of the acquiring company. Pawaskar (2001) studies the impact of mergers on corporate performance. It compared the pre and post-merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. His research presents that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability. Various studies have shown that most mergers and acquisitions result in failure, yet the concept remain popular, Virani (2009) quotes in his study that “Corporate mergers and acquisitions go on to be popular regardless of the reported high incidence of its failure rate, during the last two decades thanks to globalization, liberalization technological developments and (an) intensely competitive business environment.” The causes for the few

achievements and the many failures remain vague (Stahl, et al, 2005). The top post deal challenges of M&A are illustrated in the figure 1 which data were collected from the survey in 2009 by KPMG. Apparently complex integration of two businesses is the most challenging which accounts for 32 percent follow by dealing with heterogynous organization culture and people issues 30% and 27% respectively.

Figure 1 Top Post Deal Challenges(KPMG Global M&A survey 2009)



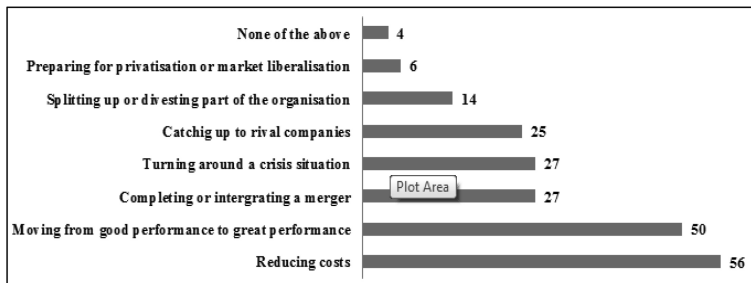
There are three significant stages of M&A. (a) Pre-transaction (b) Transaction (c) Integration. Post integration's issues as shown in the figure 1. It shows that the three most critical issues are complex integration, dealing with different organization cultures, and people issues.

### Managing Strategic Changes

After the integration accomplished, the global companies have to face the changes within their organizations internally which affect both strategic planning and organizational culture. Organizational change always entails difficulties and uncertainty, and thus many planned changes are canceled (Greenwood & Hinings, 1988). Rajago-

palan & Spreitzer (1997) argue that Strategic change represents a radical organizational change that is consciously initiated by top managers, creating a shift in key activities or structures that goes beyond incremental changes to preexisting processes. Most organizations undergo constant gradual changes. These periods of adaptive change tend to be punctuated by more radical changes (Tushman & Romanelli, 1985). McKinsey (2006) points out the reason why the executive need changes (see figure 2).

Figure 2 Executive reasons for change(McKinsey, 2006)

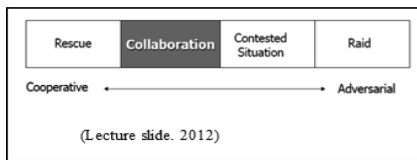


The figure 2 presents the main reasons of change are reducing costs, moving from good performance to great performance, and completing or integrating a merger respectively. This shows the correlation between merger & acquisition and strategic change. After the executive realizes the needs for change for their companies, they need to communicate to subordinates. The managerial communication of new beliefs and meanings to staff has come to be known as “*sensegiving*” (Fiss & Zajac, 2006; Gioia et al., 1994; Gioia & Chittipeddi, 1991; Labianca et al., 2000). Victor Frankl (1905-1997), an Austrian neurologist and psychiatrist, states that “When we are no longer able to change a situation, we are challenged to change ourselves”. There are four types of change strategies (Johnson et al., 2008); strategy reconstruction and turnaround strategy, revolutionary strategic change, and evolutionary strategic change. Basically turnaround

strategy concerns on cost reduction and/or revenue generation whereas revolutionary strategy tends to focus both rapid change and organizational culture change. GM and Daewoo was an explicit example (Froese, 2010). On the other hand, evolution strategy transforms the organization to be learning organization. Apple is an overt example of learning organization which was inspired by Steve Jobs, a charismatic leader who has changed this giant computer company eternally (Wooten, 2010). In order to successfully change, Lewin's Force Field Analysis is one of the strategic tools that the global enterprises can implement. It identifies a view-of-change issues that need to be tackled, by identifying driving forces and resisters. The appendix B (p.19) will exemplify more precisely. The author will use the Force Field analysis at the analysis and finding part for GM.

### Finding and Discussion

During the globalization of automobile industry in 1980-1999 General Motors looked for new markets to expand its wings. Because of intense competition within the US from outside competitor such as Japan, Germany and Korea (GM, 2012) that



forced the company to consider to enter into new markets. Asia region attracted the company from its growth

and GDP per capita (see appendix C, p.20). The acquisition between GM and Daewoo happened because of two important reasons. First reason was global expansion and second reason was acquisition of technology. GM needed to expand its business in Asia and acquired small car making know-how whilst Daewoo Motor seeks for new technology for automobile and mega markets of GM in exchange (see appendix D, p.21). As a result, it is believed that the acquisition

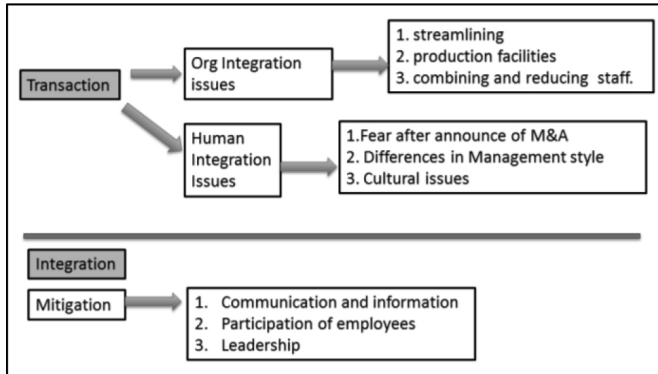
posture is collaboration. The negotiation process began in 1972 between Rick Wagoner, CEO of GM and Kim Woo-Choong, CEO of Daewoo Group. They successfully agreed into a joint venture of 50% shareholding for GM (Treece, 2008). However things did not go according to plan, the companies separated in 1992. Later Daewoo Group collapsed and went to file bankruptcy with its debt of \$16 billion, production plunged by half and 7,000 workers lost their jobs (Moon, 2004). GM bought Daewoo Motor in 2001 for \$400 million and renamed GM Daewoo Auto & Technology Co. GM holds 51% of shares and 49% holds by Daewoo Motors. The new company started to operate on 17 October 2002. GM-Daewoo cars sell in more than 140 countries. Across Asia it increases GM market share by 5.2%. The company owned two modern factories which can produce 475,000 vehicles annually and one smaller factory in Hanoi, Vietnam (for more story goes to Appendix G, p.23). At the present, the company's name changed to be GM Korea Company (visit <http://www.gmkorea.co.kr> for more information).

After the acquisition completed, GM brought in several post-merger experts from the Detroit headquarters and hire other external experts to implement rapid and drastic change. Due to the drastic and rapid change within the organization, the first year of the acquisition seems to be painful for GM-Daewoo. Not only employees' morale and market share fell dramatically and 1,700 employees were lay off. However after the post-drastric change, things seem to be better and marketshare & profit start to rise again. The author have found that GM appointed several Korean managers to higher position and even gave them opportunities to transfer to Detroit headquarters and this affect the morale and also motivate the Korean employees. The author draws at chart in order to better analyze this case study (see figure 3).



Figure3 GM-Daewoo Integration Process

(Ferrell, 2011)

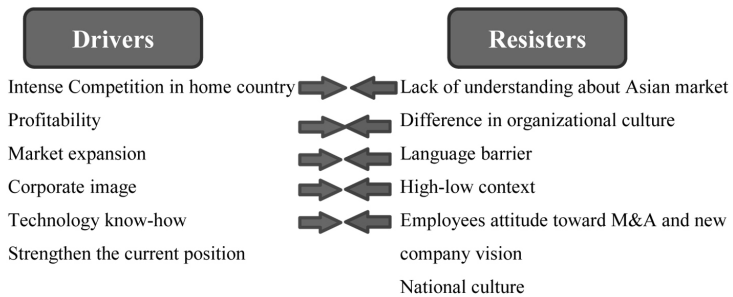


There are two major issues after the post-integration. First, Organization integration issues which concern about streamlining, product facilities and combining and reducing staffs. Changing in organization culture is also an important factor that affects the performance of the company. Organizational culture can be defined as the collecting programming of mind that distinguishes the members of one organization from others (Hofstede, 2012). In high-context cultures, such as Japan and Korea, where human relations are highly valued, human integration is especially important (Hall, 1960). The cultures of Japan and Korea are vastly different from those of Western countries and may necessitate different integration approaches. Although both Japanese and Korean cultures are characterized by collectivism and hierarchical relationships, the two also differ from each other (e.g., there are more hierarchies in Korea) even if these differences seem small from a Western perspective. The author uses Hofstede's five cultural dimensions to compare between American and Korean's working style, leadership approach, national culture and behavior difference. It found that there are significant different in term of behavior between this two

nations. *Power Distance (PDI)*, In America hierarchy is established for convenience, superiors are always accessible and managers rely on individual employees and teams for their expertise. Both managers and employees expect to be consulted and information is shared frequently. At the same time, communication is informal, direct and participative. In South Korea, hierarchy in an organization is seen as reflecting inherent inequalities, centralization is popular, subordinates expect to be told what to do and the ideal boss is a benevolent autocrat. *Individualism (IDV)*, Americans are not shy about approaching their prospective counterparts in order to obtain or seek information. In the business world, employees are expected to be self-reliant and display initiative. In South Korea, loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. *Masculinity (MAS)*, typically, Americans “live to work” so that they can earn monetary rewards and attain higher status based on how good one can be. In South Korea, incentives such as free time and flexibility are favored. Focus is on well-being, status is not shown. An effective manager is a supportive one, and decision making is achieved through involvement. *Uncertainty Avoidance (UAI)*, In America there is a larger degree of acceptance for new ideas, innovative products and a willingness to try something new or different. In South Korea, in these cultures there is an emotional need for rules, people have an inner urge to be busy and work hard, precision and punctuality are the norm, innovation may be resisted, security is an important element in individual motivation. *Long-term orientation (LTO)*, American businesses measure their performance on a short-term basis, with profit and loss statements being issued on a quarterly basis. This also drives individuals to strive for quick results within the work place. In South Korea, the idea behind it is that the companies are not here to make money every quarter for the shareholders, but to serve the stake holders

and society at large for many generations to come. The previous mentions explained relevant to what happened after the integration. Korean employees feel frustrated from the lay off and lost their morality and less productivity. At that time the number of Korean employees was 14,000.

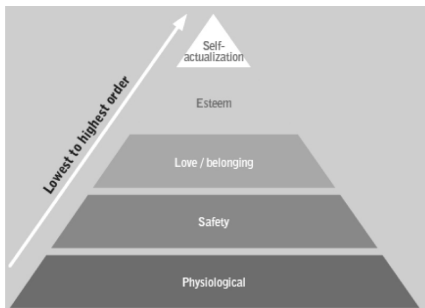
Figure 5 Force Field analysis for GM-Daewoo



### Mitigation after Post-Integration

Communicating across culture is important for global company. Doing business cross cultures involves foremost communicating with colleagues, partners (or adversaries) with different cultural backgrounds (Jackson, 1995). Even though this first year after the acquisition was tough for GM-Daewoo but by bringing experts in post-merger and external experts to tackle with the changes was wisely strategic implementation. The author believes that by using the experts who have experiences about the industry. It can accurately solve the problems effectively and efficiency. Participation of employee creates stronger cohesion and better performance.

Figure 6 Maslow Hierarchy of Needs (Maslow 1943)



Maslow (1943) explains by using Maslow's Hierarchy of Needs in figure 6 that individual can be motivated after he or she is satisfied by five-tier of needs; *Physiological* need such as hunger, thirst, anger. *Safety*

*need* such as job security, income stability. *Love/belonging* need such as good relationship with their colleagues and bosses. *Esteem* need such as recognition from their bosses. Research shown that lack of recognition from their direct supervisors is one of the main reasons employees leave their jobs (Sadri, 2011). Lastly *Self-actualization* need such as job promotion. In GM-Daewoo case, Korean managers were promoted to higher position and transfer to work at Detroit headquarters. This is satisfied the self-actualization need of Korean employee and this motivate them.

*Leadership* is considered as one of the most important factors that drives the creativity and productivity of the organization. There are two types of leadership. First is transactional leadership, manager motivates subordinates by clarifying role and task requirements. Incentive and promotion are used as extrinsic motivation. The second is transformational leadership, manager emphasizes symbolic behaviors, visionary and inspirational, appeal to values and self-sacrifice and intrinsic motivation is used (Mullins, 2010). Eventually Cox (2001) adds that leadership is the most essential element for changes, without it, nothing happen.

## Conclusion

Although Merger & Acquisition is one of rapid strategies that a global company can expand its markets into a new potential country and increases profit. However, it also comes with high risk. Half of the integrated companies that implemented M&A fell to the ground. *Organizational integration issue and human issue* are two major forces that cause the failure. Differences in organizational culture and national culture lead to the difficulty for acquirer. Similarly, what Professor Geert Hofstede shows in his pyramid of individual behavior model that culture shapes individual's personality. Tangible resources, technology, machines, plants, and financial, are simple to manage but culture in contrast is complicated and covert. Cultural conflict within a multinational organization is a sensitive dilemma that extremely significant to be aware of. The use of post-merger experts who have experiences in automobile industry helps General Motors successfully integrated with Daewoo. Even though from the literature review, the author cannot find relevant articles that mentioned about whom were responsible for this important mission and how they could manage to tackle it. However, this study obviously shows us that national culture factors should be considered seriously before M&A. This study contributes interestingly to those readers who are planning to use M&A strategy for their organization. The limitation of this study was time permit and studied merely two enterprises. Therefore, the further research should increase number of companies or even select different national companies then we are able to compare data and conclude more vividly.

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