

Using the Cultural Dimension and Accounting Value Classification Frameworks to Investigate Cultural Diversity in a Multi-National South African-Based Company

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The developing South African economy provides good business opportunities for global companies. Despite the popularity of mergers and acquisitions as a way to expand into a developing economy, many such business transaction fail to create sustainable organisations due to issues pertaining to national and corporate cross-cultural issues. This study investigated the potential impact of national cultural differences pertinent to the acquisition of a South African-based resource company by a French-based international group. It was evident that there were cultural differences in the manner which certain attitudes and actions were expressed within the workplace, which have led to some conflict that hampered the optimum functioning of the accounting-related functions within the company. By using Hofstede's cultural dimensions and Gray's accounting value classification frameworks within this case study, the organization's management was provided with insights into how national cultural orientation affects their functioning.

Key Words: accounting value classification; corporate culture; cultural dimensions; mergers and acquisitions; resilience; sustainability

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Introduction

According to Mantecon (2009) cross-border mergers and acquisitions (M&As) have increased nearly three times faster than that of domestic M&As over the past two decades, with greater potential challenges due

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to cultural differences. In the context of this article, the term ‘merger and acquisition’ is used in the context of the corporate environment, and not per se in a non-corporate environment such as combinations of government or non-profit entities. A case in point for unsuccessful mergers is the example of the *German* Daimler Benz and the *American* Chrysler Corporations’ attempted merger, in which the diverse corporate cultures and structures significantly convoluted the merger (Fitzgibbon Dermidoff 2004). The economic motivation suggests that M&As take place to realise economic advantages, including economies of scale, synergy, time to market, substitutions of assets, corporate control, and tax savings (Sternad 2012; Mura et al. 2011). Several studies however, indicated that many M&As actually destroy rather than create shareholder value, and that M&As often fail because potential culture clashes are ignored (Slangen 2006; Schreder and Self 2003).

This article investigates a South African/French cross-border M&A scenario in which national cultural diversity played a key role. The core transaction involved was the *acquisition* of a South African silica extraction company by a French conglomerate. This case study focusses on the South African based company, which had to submit periodic financial reports to its French parent company post-M&A. The post-M&A company’s reporting requirements differed substantially from the pre-M&A company, and even though the M&A as a business transaction was successful, there was evidence of employee dissent in the accounting and finance functions of the company with some degree of (national) cultural mismatch found in the post-M&A company. The focus of the study is therefore to investigate cultural differences between South African and French nationals within the merged company’s accounting and finance functions according to Hofstede’s cultural value systems as components of national cultures. These results paved the road to extend the study to focus on cultural differences according to Gray’s accounting value classification. The importance of the study is that cultural differences within the company are highlighted, which revealed differences between the two cultures in respect of the accounting value classifications of professionalism, uniformity, conservatism and secrecy. Recommendations could therefore be made to assist the company’s management better understand the employees within the accounting and finance functions.

Research Problem, Objectives and Method

It has been suggested earlier that when a cross-border M&A takes place, organisations do not always properly understand the various cultural

characteristics (be it individual, national or corporate) at play. The key research problem under consideration here is therefore to determine whether the individuals' cultural diversity in the company's accounting and finance functions could be responsible for some of the conflict situations within the department. Therefore, within the context of this case study, the supporting research questions can be formulated as follows:

- Is there a significant difference between the South African and French respondents' answers regarding specific cultural dimension questions per the measuring instrument?
- What are the key cultural aspects pertinent to the cross-border M & A impacting on the case study company's management objectives?

In order to answer the above questions, four objectives are set.

- Firstly, it is important to define the theoretical framework in which the case study is conducted. This is done by highlighting Hofstede's cultural dimensions and Gray's accounting value classifications.
- The second objective is to test the statistical significance between the responses of the South African and French respondents within the specific case study company regarding cultural dimension questions.
- The third objective is to determine and interpret the potential impact of the current M & A transaction, taking the cultural differences per Hofstede's cultural dimensions into account.
- The fourth objective is to extend the cultural differences between the South African and French nationals to Gray's accounting value classification.

To fulfil the above objectives, an empirical study was conducted by means of an adjusted questionnaire from Hofstede's Value Survey Model 2008 (consisting of 16 questions). Since the case study is pertinent to the accounting and finance function of the specific company, the total targeted population was all the employees within these functions. The questionnaire was therefore distributed to the 25 employees within such accountancy-related functions of the *post-M & A* company, with a final response of 84% ($n = 21$).

The results were analysed using the *t*-test to determine differences in the responses of the two groups of respondents, calculating four indices regarding Hofstede's national value systems as components of national cultures, a Chi-squared test to determine the association between the four

indices and the two national cultures and finally, to interpret the results of the four indices.

The remainder of the article is set out as follows: Firstly, the theoretical framework, including a contextual review of M&As and the cultural implications thereof, is provided, followed by the results of the Value Survey Model, and finally a concluding discussion and research summary.

Theoretical Framework

The consideration of the theoretical framework is conducted to reach the first research objective as set out above and provides a basis to the case study by explaining the difference between mergers and acquisitions, the cultural considerations as developed by Hofstede's national value systems as components of national cultures and Gray's accounting value classifications.

MERGERS AND ACQUISITIONS

Even though the term *merger and acquisition* is often used to describe the consolidation of two or more organisations, it consists of two diverse concepts. The term *merger* is typically defined as a combination of two or more organisations resulting in a single (new) entity, while the term *acquisition* is typically defined as obtaining control (operational or legal) of another organisation (Reed, Lajoux, and Nesvold 2007). Therefore, even though this case study would be considered as an acquisition of the South African entity, the term 'M&A' is still used to describe this specific transaction.

Cross-border M&As provide organisations the opportunity to obtain new knowledge from each other. When the knowledge bases are substantially different, however, neither organisation may have the appropriate absorptive capacity to profit from the knowledge of the other (Tsai 2001). Focusing on culture, there are often problems during cross-border M&As, because organisations tend to have diverse corporate and national cultures that need to be integrated (Khanna and Krishna 2010). Such differences play a role in both pre- and post-M&A phases. In the *pre-M&A* phase, the cultural distance plays an important role and factors such as distance, differences in law, language, political issues, management styles, values, will impact greatly on the success of the integration process (Lees 2003). During the *post-M&A* phase, integration plays an important role in order to fight the resistance against change, which can only be successful if the employees are involved in the process (Larsson and Lubatkin

2001). The purpose of this article is therefore to focus more on the post-M&A cultural situation of the case as explained earlier in the article.

CULTURAL CONSIDERATIONS

While the term culture is frequently used in our everyday lives, it is not always clear exactly what it entails. Culture can be defined as an *embedded societal belief system* that is reflected in the behaviour of organisations and people (Gulev 2009; Kock and Van der Merwe 2009; McDermott and O'Dell 2001), or as a *collective programming of the mind* that distinguishes one human group from another (Gulev 2009; Benou, Gleason, and Madura 2007). According to (Steyn and Du Toit 2007) effective management must recognise the importance and the impact of culture, both the so-called organizational culture and the specific cultures of the people within the organization, on the organizational operations. Historically, cultural differences have often been mandated by religion (La Porta et al. 2000), by language (Stulz and Williamson 2003), or by law (Licht, Goldschmidt, and Schwartz 2005).

Hofstede's Cultural Dimensions

In terms of diverse organisational behaviour, recent literature recognises the value of Hofstede's cultural dimensions, which include:

- The *Power Distance Index* (PDI) dimension, which is the basic premise of how human inequality is handled by different societies (Orr and Hauser 2008). In a high PDI culture, more importance will be placed on status, rank and centralised power (Samovar, Porter, and McDaniel 2009).
- The *Individualism* (IDV) dimension, which describes the relationship between individuals and their prevailing relationship in a specific society (McFarlin and Sweeney 2006). In a high IDV culture, individuals tend to look after themselves, as opposed to after each other (Orr and Hauser 2008).
- The *Masculinity* (MAS) dimension, which indicates how the male characteristics (e.g. egocentric goals) and female characteristics (e.g. social beneficial goals) in a society differ (Samovar et al. 2009; Orr and Hauser 2008).
- The *Uncertainty Avoidance Index* (UAI), which provides an indication as to the manner in which a society accepts uncertainty (Sternad 2012; Avery, Baradwaj, and Singer 2008).

Gray's Accounting Value Classifications

Within an accountancy context, cultural factors have an influence on the development of accounting and financial reporting systems (Askary 2006; Dounnik and Tsakumis 2004). From Hofstede's basic cultural dimensions, Gray identified four accounting value classifications to define an accounting sub-culture, including (Chanchani and Willett 2004):

- The *Professionalism* classification, whereby a preference is set for individual professional judgement against a preference for prescriptive legal requirements and statutory controls.
- The *Uniformity* classification, whereby uniformity is seen as the preference of using the same accounting practices, as opposed to flexible accounting practices that adapt in accordance with the needs of the organisation.
- The *Conservatism* classification, whereby conservatism is seen as a preference for caution in order to avoid the uncertainty of future events as opposed to a more optimistic, *laissez-faire* and risk-taking approach.
- The *Secrecy* classification, whereby secrecy is the preference for disclosing financial information in a cautious manner as opposed to more transparent, open and publicly accountable approaches.

These accounting classifications have theoretically been linked to Hofstede's cultural value dimensions, from which the following hypotheses have been developed:

- H₁ *Higher IDV rankings together with lower UAI and PDI rankings should equate to a higher professionalism classification.*
- H₂ *Higher UAI and PDI rankings together with lower IDV rankings should equate to a higher uniformity classification.*
- H₃ *Higher UAI rankings together with lower IDV and MAS rankings should equate to a higher conservatism classification.*
- H₄ *Higher UAI and PDI rankings together with lower IDV and MAS rankings should equate to a higher secrecy classification.*

The above hypotheses expanding Hofstede's cultural dimensions into Gray's accounting value classifications, are supported by empirical research conducted by various researchers, including Olimid and St. Calu (2006) who found evidence in Romania for the first three of Gray's hypotheses, and Askary (2006) who confirmed the effects of culture on accounting professionalism in twelve developing countries, including Iran,

Bangladesh, Jordan, Oman and Qatar. Sudarwan (1994) used linear structural relations to test the validity of Gray's model and found that all four of the accounting value classifications are confirmed by Indonesian accounting practices and Chanchani and Willet (2004) who provided support for the accounting values of uniformity, professionalism and secrecy.

Data Analysis and Interpretation

The responses received indicated that the majority of the workforce was male (86%, $n = 18$) as opposed to female (14%, $n = 3$), and that the French nationals accounted for 24% ($n = 5$) of the respondents while the South African nationals accounted for 76% ($n = 16$). In respect of experience, the majority of the respondents were older than 30 years (86%) and had more than five years' work experience (62%) with the company.

In respect of the questions pertaining specifically to cultural dimensions, the data was collected in terms of Likert scale selections ranging from 1 to 5. The first nine questions used a scale with 1 meaning *of utmost importance* and 5 meaning *of very little or no importance*. The tenth question used a scale with 1 meaning *always* and 5 meaning *never*, the 11th question used a scale with 1 meaning *very good* and 5 meaning *very poor*, the 12th question used a scale where 1 means *never* and 5 means *always*. The 13th to 16th questions used a scale with 1 meaning that the participant *strongly agrees* and 5 meaning that the participant *strongly disagrees*. The results (based on the mean from the responses) are indicated in table 1.

To reach the second objective as set out above partly, a two-sided hypothesis test was done to determine the difference between the means of the 16 scores in table 1 of the South African and the French respondents' answers, where $H_0 = \mu_{RSA} - \mu_{French} = 0$ and $H_1 = \mu_{RSA} - \mu_{French} \neq 0$. A *t*-test that is suitable for smaller samples was used to test the hypothesis. Since Microsoft Excel was used in this analysis, the *F*-test was first performed that indicated that a *t*-test, assuming equal variances, should be run (see <http://www.qimacros.com/qiwizard/t-test-two-sample.html>). The results showed that $p = 0.94 > \alpha = 0.05$, implying that the null-hypothesis H_0 should not be rejected, since there is no evidence to accept the alternative hypothesis H_1 (Wegner 2007).

Furthermore, to reach the third objective as set out above partly, the 16 content questions indicated allow index scores to be calculated for the four dimensions of national value systems as components of national cultures, i. e. PDI, IDV, MAS and UAI. The index formulae are as follows:

- Power Distance Index: $35(m_{07} - m_{02}) + 25(m_{13} - m_{15}) + C(pd)$ (1)

TABLE 1 Hofstede's dimensions: South African (RSA) versus French respondents (individual means)

Value Survey Model questions	RSA	French
1 Do you have sufficient time for your personal or home life?	1.69	2.00
2 Do you have a direct superior you can respect?	1.75	1.60
3 Do you get recognition for good performance?	1.69	1.20
4 Do you have security of employment?	1.75	2.80
5 Do you have pleasant people to work with?	2.94	2.00
6 Do you do work that is interesting?	1.69	1.60
7 Are you consulted by your superior in decisions involving your work?	1.44	2.20
8 Do you live in a desirable area?	2.44	3.00
9 Do you have a job respected by your family and friends?	3.19	3.60
10 Do you have opportunity for promotion?	1.50	2.00
11 How often do you feel nervous or tense?	3.25	3.40
12 How would you describe your state of health currently?	2.00	1.60
13 How often, in your experience, are subordinates afraid to contradict their boss?	3.44	3.40
14 Do you think one can be a good manager without having a precise answer to every question a subordinate may raise about his or her work?	2.31	1.60
15 Do you think an organisation structure in which certain subordinates have two bosses should be avoided at all cost?	1.94	1.40
16 Do you think an organisation's rules should not be broken – not even when the employee thinks breaking the rule would be in the organisation's best interest?	2.47	2.40
Total mean	2.22	2.24

- Individualism Index: $35(m_{04} - m_{01}) + 35(m_{09} - m_{06}) + C(ic)$ (2)
- Masculinity Index: $35(m_{05} - m_{03}) + 35(m_{08} - m_{10}) + C(mf)$ (3)
- Uncertainty Avoidance Index: $40(m_{11} - m_{07}) + 25(m_{15} - m_{16}) + C(ua)$ (4)

The formulae can be interpreted as follows: m_{16} 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 the applicable indicator to values between 0 and 100.

The cultural dimensions of the French and South African respondents

TABLE 2 Cultural dimension index

Respondents	PDI	IDV	MAS	UAI
French	72	99	64	8
South African	28	56	78	64

in the accountancy function of the company were compared to each other (table 2). In further support of reaching the second objective, the Chi-squared test, which is only an upper tail test, for independence association, was performed to test the null-hypothesis, H_0 . There is no association between culture and the four dimension index scores (i. e. they are independent), alternatively, H_1 . There is an association (i. e. they are not independent). The level of significance is chosen as $\alpha = 0.05$ and the degrees of freedom $df = (\text{number of rows} - 1) \times (\text{number of columns} - 1) = 3$. The results showed that $\rho < 0.001$, implying there is overwhelming evidence to reject the null-hypothesis H_0 and support the alternative hypothesis H_1 (Wegner 2007). The next sections provide the interpretation of Hofstede's cultural dimension index (third objective).

- The *PDI index* indicates that unequally distributed power is more acceptable to the French respondents (72) than to the South African respondents (28). Power inequalities may therefore be more often questioned by the South African respondents, while the French would accept power inequalities more readily.
- The *IDV index* indicates that individual rights are more dominant with the French respondents (99) than with the South African respondents (56). The French should therefore place more importance on the individual taking care of himself than the South African respondents.
- In respect of the masculinity, the *MAS index*, the French respondents consider attributes such as assertiveness and material success as less important than the South African respondents (64 vs. 78).
- The *UAI index* was assessed to be much higher with the South African respondents (64) than the French respondents (8), which indicate that different viewpoints should be better handled by the French respondents than by the South Africans respondents.

Following from the above, the cultural dimensions have been extended to the accounting classifications (table 3), which is the fulfilment of the fourth objective.

TABLE 3 Accounting value classification index

Classification	French				South African			
	PDI	IDV	MAS	UAI	PDI	IDV	MAS	UAI
Professionalism	72	99		8	28	56		46
Uniformity	72	99		8	28	56		46
Conservatism		99	64	8		56	78	46
Secrecy	72	99	64	8	28	56	78	46

- The cultural dimensions that relate to *professionalism* versus *statutory control* are the PDI, IDV and UAI indexes. Gray's first hypothesis suggests that a higher ranking in terms of IDV and a lower ranking in terms of UAI and PDI is suggestive of a preference for professionalism. The research revealed that due to a higher IDV ranking and lower UAI and PDI rankings, both the French (99/8/72) and the South Africans (56/46/28) should rank high in terms of professionalism. The French, however, have higher indicators for IDV and PDI than the South Africans, which should be indicative of even higher levels of professionalism and lower needs for statutory controls than the South Africans. The South African respondents, in turn, have a higher indicator of UAI, which is indicative of a strong feeling against uncertainties and therefore a higher preference for statutory control than the French.
- The cultural dimensions that relate to *uniformity* versus *flexibility* are PDI, IDV and UAI. Gray's second hypothesis suggests that a higher UAI and PDI ranking and lower IDV ranking will indicate that uniformity is preferred over flexibility. The research revealed that, due to a lower UAI and lower PDI and higher IDV, both the French (8/72/99) and the South Africans (46/28/56) will rank high in terms of flexibility. The South African respondents' higher UAI, however, indicates that they should perhaps be less willing to deviate from norms, with the French more likely to be more flexible.
- The cultural dimensions that relate to *conservatism* versus *optimism* are IDV, MAS and UAI. Gray's third hypothesis suggests that higher UAI and lower IDV and MAS classifications are indications of a preference in terms of conservatism, rather than optimism. The research revealed that, due to lower UAI and higher IDV and higher MAS classifications, both the French (8/99/64) and the South African (46/56/8) respondents will rank high in terms of optimism,

with the French respondents perhaps even slightly more optimistic and willing to take risks.

- The cultural dimensions relevant to *secrecy* and *transparency* are PDI, IDV, MAS and UAI. Gray's fourth hypothesis suggests that a higher ranking in terms of UAI and PDI and a lower ranking in terms of IDV and MAS are indicative of a preference for secrecy. The result indicates that with low UAI and PDI rankings and high MAS and IND (rankings) it is suggested that the South Africans (46/28/78/56) will prefer a more transparent, open and publicly accountable approach. The French respondents have very low UAI (8) and relatively high PDI (72) rankings together with very high IDV (99) and moderate MAS (64) rankings. The results indicate that only three of the four classification indicators (i. e. UAI, IDV and MAS) are relevant here, which may be indicative that the South Africans are likely to be more transparent than their French counterparts.

Concluding Discussion

SUMMARY OF RESEARCH FINDINGS

The objective of this study was to identify the cultural implications as experienced in an actual South African/French M&A scenario. A better understanding of cultural differences within this context will serve to make a successful M&A even better by ensuring that the *post-M&A* organisation continues to take cognisance of the fact that diverse cultural perceptions are at work in this case.

Referring to the first research question, the study found that there is no difference between the means of the 16 questions answered by the South African and the French respondents. Nevertheless, a visual inspection of the answers showed substantial differences between specific questions. These differences are further highlighted by the results of the Chi-squared test, implying that there is overwhelming evidence that there is an association between the national cultures and the four dimension index scores.

Referring to the second research question, that the focus needs to shift to the specific indices, the study revealed that there were significant differences in the power distance index between the French and the South African respondents. The French will tend not to take advice from their subordinates, while the South Africans may expect to be more included in the daily business decisions. The French respondents should also allow for more inequality between the organisational levels and wider salary

ranges. In this scenario, where the French nationals are in a South African environment, the input of the locals can be very important towards the success of the company post-M&A. The dimension relating to individualism indicated that the French had higher levels of individualism, which translates to higher expectations of individual rights. In the workplace, the French should be more open to hiring and promotional practices based on skills and rules, whereas the South Africans will consider the *in-groups* when making such decisions. This means that there might be conflict in hiring new employees or making promotions. The uncertainty avoidance index indicated that the South Africans had a higher level of uncertainty, which indicates that they will introduce more rigid procedures to reduce the levels of uncertainty, whereas the French will be more acceptable of uncertainty and will be more willing to take risks. The French will also have less stress and they will tend to be hard-working only when needed. The final cultural dimension, masculinity, indicated that although the difference between the French and the South Africans was relatively small, the South African respondents may be more focused on *living in order to work*, with South African managers more decisive and assertive, with more competition between colleagues. Cultures with lower masculinity indicators, such as the French respondents will tend to be more focused on *working in order to live*, with such managers striving for agreement, and resolving conflict by means of compromise and negotiation. Cultural conflict may therefore arise between the two cultural groups because the South Africans may be more intent on work with the French more intent on life characteristics.

The results of the study indicate that to a large extent the two groups of respondents can be divided into the same accounting value classifications. Notwithstanding, there are still differences in the levels within these classifications. The employees in the company will be very professional in their work and be adaptable to certain situations as they favour flexibility. The company will also favour an optimistic and transparent open approach to accounting. In three of the accounting values, the French participants 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 situa-

tions. The fact that all four the cultural dimensions apply to the South Africans, indicated that they will rank higher in terms of transparency as opposed to only three dimensions applicable on the French. Although the difference between the accounting values is not that big, it is still apparent that the cultural dimension does affect the level of the accounting values.

IN CONCLUSION

The above findings indicate that culture does play a crucial part in cross-border M&As. In this case study, it was statistically 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 M&A, the financial director indicated that the holding organisation made use of a facilitator who acted as a mediator between the South Africans and the French. The mediator, however, 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 the organisation was such a success.

LIMITATIONS TO THE STUDY

There are a number of limitations to the research study. Firstly, the general uncertainty 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, it is assumed that the responses to the questionnaire items reflect substantive constructs rather than reactions to linguistic signals. Thirdly, the reader should take cognisance of the fact that this article describes a single and specific case study with a limited sample size. As such the detailed facts are particular to this case and care should therefore be taken not to generalise findings of the case study necessarily to all cross-border M&As, but should be understood within the context of this case study.

RECOMMENDATIONS FOR FURTHER RESEARCH

Further research in this field, focusing on different organisations and cultures, would also be beneficial, as it could provide additional valuable assistance to organisations wishing to participate in cross-border M&As. The South African business context is culturally very diverse with 11 official (indigenous) languages, each with a distinct population group and associated culture. The developing South African economy is also attracting major foreign investors from Asia, North America and Europe. Better understanding the impact(s) of national, individual and corporate culture within this ‘melting pot’ of cultures may go a long way in promoting successful M&As. The more accurate and relevant the ‘soft information’ about cultural roles in a corporate environment, the bigger the chances are that organisations will investigate the cultural fit before entering into the actual business transaction.

Notes

- 1 This article is based on the research conducted by Stefan Stander’s Master’s degree in Managerial Accounting at the Potchefstroom Campus of the North-West University in South Africa.

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