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**City University Business School
London**

PhD Thesis

Submitted by:

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**Doctoral Candidate in the Department of Strategy and International
Business**

January 1998

*Barriers to Change and Integration in Foreign M&As within East
Germany:
A Qualitative Study*

Prepared under the supervision of Professor Charles Baden-Fuller

Index

PhD Thesis of Neil Thomson

Dissertation Title:

*Barriers to Change and Integration in Foreign M&As within East Germany:
A Qualitative Study*

	Pages
Executive Summary	1-12
Chapter 1. Context and Challenge of German Reunification	13 - 46
1.1 - The East German Context and Multi-Level Analysis	14
1.1.1 Economic Context	16
1.1.2 Unemployment Context	19
1.1.3 Cultural Context	33
1.1.4 Discussion about the macro level context	37
1.2 - Emerging Themes from Context Review	42
1.2.1 The challenges in learning and flexibility	42
1.2.2 Learning and flexibility at the macro level	43
1.2.3 Learning and flexibility at the group level	44
1.2.4 Learning and flexibility at the individual level	45
1.3 - Conclusions and link to methodology	46
Chapter 2. Methodology	Pages 47 - 66
2.1 - Chapter overview	47
2.2 - General Research Objectives	47
2.2.1 General Type of Information Needed	48
2.2.2 Type of Philosophy Needed	48
2.3 - General Research Problem	49
2.3.1 Overview of the Problem	49
2.3.2 Statement of the Problem	50

2.4 - The Research Questions	50
2.3.1 Main Questions	51
2.3.2 Sub-Questions	51
2.5 - Research Paradigms - Philosophical Stance	51
2.5.1 Philosophical Link from Research Question to Methodology	51
2.5.2 Paradigms	52
2.5.3 Functionalist Paradigm	54
2.5.4 Interpretative Paradigm	55
2.5.5 Modernist Vs. Postmodernist	57
2.6 - Methodology for Social Science Research	58
2.6.1 Quantitative Research	58
2.6.2 Qualitative Research	60
2.6.3 Choosing between Quantitative and Qualitative Methodology	64
2.6.4 Pilot Study	65
2.7 - Conclusions and Onward Links	66
Chapter 3. Literature Review	Pages 67 - 93
3.1 Chapter Overview	67
3.2 Strategic Management Literature	68
3.2.1 Change Management Literature	72
3.2.2 Mergers & Acquisitions Literature	75
3.3 Organisational Theory Literature	76
3.4 Cross-Cultural Literature	81
3.5 Anglo-West German Comparisons	84
3.6 Nature Vs. Nurture in East Germany	88
3.7 East Germany	90
3.8 Conclusions and Onward Link	93
Chapter 4. Individual Vs Group	Pages 94 - 141
4.1 Chapter Overview	94

4.2	Setting the Context	94
4.2.1	Individualism	95
4.2.2	Individualism and Job Security	96
4.2.3	Groups	97
4.2.4	Group Vs. Individual, Pros & Cons	99
4.2.5	Uncertainty Avoidance	102
4.2.6	Power Distance in East Germany	106
4.2.7	Post Repression Psyche	108
4.3	Emergent Questions & Working Assumptions	108
4.4	Research Design and Data Collection	110
4.4.1	Research Design	110
4.4.2	Choice of Type of Qualitative Design	111
4.4.3	Data Collection	113
4.4.4	Diverse or Similar Sample?	115
4.4.5	Researcher & Subject Bias	116
4.4.6	Language Problems	116
4.4.7	Data Analysis Issues	119
4.5	Review of Field Data	121
4.5.1	Job Uncertainty & Breakdown of Integration and Co-operation	121
4.5.2	East German perceived lack of initiative	130
4.5.3	East German perceived lack of personal responsibility	133
4.6	Discussion and Analysis of Results	136
4.7	Conclusions and Onward Links	140
Chapter 5. Two-Way Learning?		Pages 142 - 232
5.1	Chapter Overview	142
5.2	Setting the Context	143
5.2.1	Strategic Management Literature	144
5.2.2	Change Management Literature	145
5.2.3	Mergers & Acquisitions Literature	151
5.2.4	Learning Literature	156
5.3	Emerging Questions & Working Assumptions	164

5.4	Data Collection	166
5.4.1	Individual or Group Interviews	166
5.4.2	Contrasting Case Studies	167
5.4.3	Acquisition Vs. Merger (Co-ownership)	168
5.5	Contrasting Case Studies of M&As	159
5.5.1.	Case of a well handled M&A - Acerplan GmbH	168
5.5.2	Case of a badly handled M&A - Tricat, Kataleuna GmbH	185
5.5.3	Review of differences and Similarities in the two cases	193
5.6	Acculturation & Two-Way Learning in M&As	196
5.6.1	Acculturation in M&As	197
5.6.2	Types of Acculturation	198
5.6.3	Operationalisation of the Data	199
5.6.4	Stress & Change	200
5.6.5	Limitations of the Nahavandi & Malekzadeh Model	201
5.6.6	Five Forces Influencing Acculturative Stress	202
5.6.7	Assumptions for the Model	203
5.6.8	Model for Assessing West/East M&As	204
5.7	Results and Analysis	206
5.7.1	Results	206
5.7.2	Extended Model to Predict Long Term Success & Failure	208
5.7.3	Operationalisation of the New Variables	209
5.7.4	Data Analysis	213
5.8	Discussion of Results	220
5.8.1	Working Assumption 1	221
5.8.2	Working Assumption 2	224
5.8.3	Working Assumption 3	226
5.8.4	Usefulness of the Model	230
5.9	Conclusions	231
Chapter 6. Contribution, Speculation & Future Research		Pages: 233 - 244
6.1	Contribution	233
6.2	Speculation	241
6.3	Future Research	242
6.4	Conclusion	244

Bibliography

Pages: 245 - 255

English Language Literature

245

German Language Literature

253

Appendix

248

Listing of Tables and Figures

TABLES:

Executive Summary:

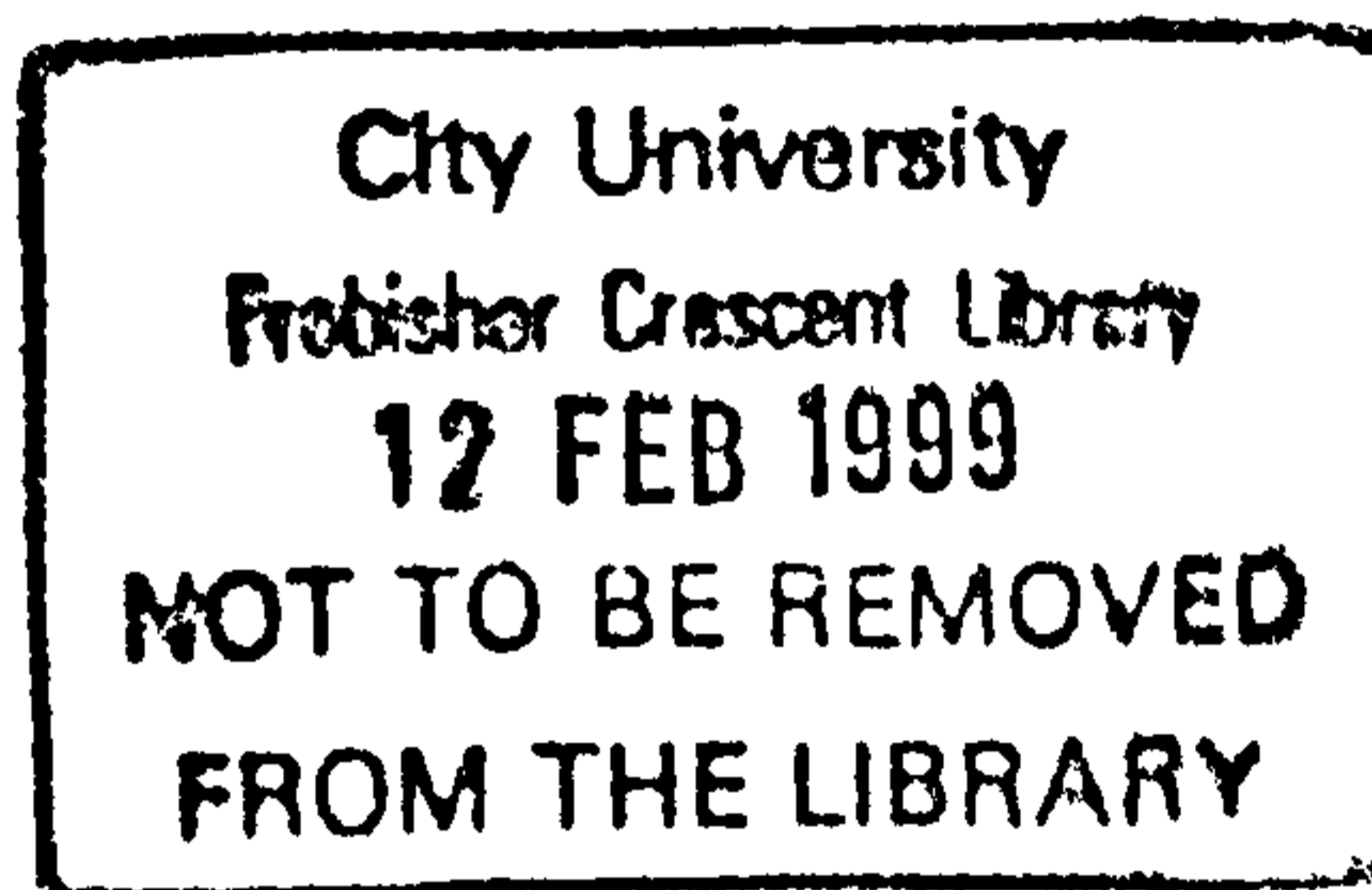
Table - 1; Summary of Data Sources	4
Table - 2; Summary of Data Collection Techniques	4
Table - 3; Acculturative Stress: Findings Concerning Components & Intensity	6
Table - 4; Summary of Success, Integration & Learning in Researched M&As	8
Table 1-1	17
Start Position, Economic Indicators in East and West Germany	
Table 1-2	18
Changes in GDP after Unification	
Table 1-3	19
GDP Per Capita using Current Prices. East Germany as a % of West German Levels	
Table 1-4	24
Comparison of Labour Productivity and Unit Labour Costs in East Germany and West Germany.	
Table 1-5	25
Employment per Sector in West and East Germany	
Table 1-6	26
East German Industrial Output	
Table 1-7	27
Investment in East Germany, 1991 - 1996	
Table 1-8	30
Employees in <i>Treuhand</i> Firms	
Table 1-9	31
Total Number of Firms and Part Firms as at 31.12.1994	
Table 1-10	32
% of Total Electricity Generated in 1994 produced by Brown Coal	
Table 1-11	32
% of Heating of all East German Housing	
Table 1-12	34
Comparing Lives, 1996	

Table 1-13 Comparing Lives, 1995	35
Table 1-14 Comparing Lives, 1990 Vs. 1995	36
Table 1-15 2 nd Class Germans	36
Table 2-1 Contrasting Attributes with Different Paradigms	53
Table 2-2 Responses to Interviews	62
Table 3-1 Six Schools of Organisational Theory	77
Table 3-2 Contrasting British and German Environmental Characteristics	85
Table 3-3 Vocational Qualifications in West Germany and Great Britain	86
Table 3-4 Production Workers as a Share of Total Personnel (%)	87
Table 3-5 % Supervisory Staff to Production Workers	87
Table 3-6 % Managerial & Supervisory Staff to Production Workers	87
Table 3-7 % Technical Staff to Production Workers	88
Table 3-8 Empirical Studies about East German Management, Before and After Reunification. Full Table appears in the Appendix.	91
Table 4-1 Individualisation Index for Various Selected Countries	95
Table 4-2 Job Security Fears in East German Management	97
Table 4-3 Summary of Research on the Impact that Groups have on Organisational and Individual Behaviour	98

Table 4-4	100
Hypothesised Pros of Individualism Vs. Collectivism in an Organisational Setting	
Table 4-5	101
Hypothesised Cons of Individualism Vs. Collectivism in an Organisational Setting	
Table 4-6	102
National Scores on Integration/Trust	
Table 4-7	103
Uncertainty Avoidance Values for Selected Countries	
Table 4-8	105
Uncertainty Avoidance Index (UAI) in East Germany	
Table 4-9	106
Power Distance (PDI)	
Table 4-10	107
Power Distance Index (PDI) in East German Management	
Table 4-11	114
Summary of Data Collection Techniques	
Table 4-12	115
Details of M&As Researched	
Table 5-1	175
Acerplan Products & Industry Wisdom	
Table 5-2	176
Engineering Consultancy market in East Germany	
Table 5-3	199
Types of Acculturation	
Table 5-4	207
Summary of Determinants of Acculturative Stress	
Table 5-5	213
Assessment of M&As Researched	
APPENDIX	256
Table 3-8 (also referred to on page 91)	
Empirical Studies about East German Management, Before and After Reunification.	

FIGURES:

Figure 1-1 Growth of wages in East Germany compared with International Competitors	23
Figure 1-2 Comparison of Labour Productivity and Unit Labour Costs in East & West Germany, (West Germany = 100).	24
Figure 1-3 Eastern & Western Views on the Personal Qualities of their Counterparts	37
Figure 2-1 Four Paradigms for the Analysis of Social Theory	53
Figure 3-1 Schools of Thought in the Study of Organisations	76
Figure 4-1 The Pitchfork Results from the Schachter Study	99
Figure 5-1 Force Field Analysis Framework	148
Figure 5-2 Change Area: Forces and Outcomes	149
Figure 5-3 The Three Phases of an Acquisition	152
Figure 5-4 Research Focuses and the Stages of Acquisition	156
Figure 5-5 Stages of Development of Acerplan's Services	181
Figure 5-6 Acculturative Model for the implementation of Mergers (The Nahavandi & Malekzadeh Model)	196
Figure 5-7 Model of Factors Affecting Acculturative Stress (The Original Model)	205
Figure 5-8 Long Term Success or Failure (The Expanded Model)	209



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ABSTRACT

'Barriers to change & integration in foreign M&As within East Germany: a qualitative study'

Many domestic take-overs and mergers are not successful, over half fail. Cross-border M&As are even more fraught with problems due to differing national cultures exasperating different organisational cultures. International M&As in rapidly transforming East Germany offer attractive possibilities for research as change in the firm, and resistance to it, takes place against a backdrop of external, revolutionary societal change as well as internal, national and organisational clashes.

The research followed a grounded theory, qualitative methods approach embedded in the overarching strategic management theoretical framework of the Resource Based View of the Firm. Through a series of case interviews with East German managers and employees in six foreign acquired M&As split off from old combines, together with employees released after take-over, the type of acculturation and perceived level of integration was examined. A model was developed to measure post acquisition integration problems signalled by acculturative stress. By highlighting using two of the case studies as a contrast, acculturative stress was seen to make a significant contribution to causes of failure. On the other hand, further development of the model showed successful integration as having implications as a stepping stone to two-way learning and onwards to long term success.

The research's claims to contribution can be synthesised down to three areas. Firstly, the importance of the group in East Germany has been overlooked and its continued existence in the face of pressures for more individualisation has important implications for motivation, incentives, change and learning. Secondly, the choice of top managers and their relationship to the firm (co-ownership or not) is crucial in reducing acculturative stress and achieving integration and two-way learning. Finally, the acquired human resources, due to their knowledge, knowledge potential through unlearning, shared experiences and language are a potential route to competitive advantage. The areas of contribution form the basis for speculation and future research.

List of Abbreviations:

ATC	Average Total Cost
BvS	<i>Bundesanstalt für vereinigungsbedingte Sonderaufgaben</i> (Successor organisation to the THA)
CAD	Computer Assisted Design
CEE	Central & Eastern Europe
CEO	Chief Executive Officer
CIA	Central Intelligence Agency
CIS States	Commonwealth of Independent States
COMECON	Council for Mutual Economic Assistance
CVS	Chinese Value Survey
DDR	<i>Deutsche Demokratische Republik</i> (E. Germany)
ECU	European Currency Unit (Now named Euro)
GDP	Gross Domestic Product
GDR	German Democratic Republic (East Germany)
GEMU	German Economic & Monetary Union
GmbH	<i>Gesellschaft mit beschränkter Haftung</i> (Co.)
GNP	Gross National Product
HNC	Higher National Certificate
HOAI	<i>Honorarordnung für Architekten und Ingenieure</i> (Fee Regulations for Architects & Engineers)
HQ	Head Quarters
IBM	International Business Machines Inc.
IDV	Individualism Index
M&A	Merger & Acquisition
MD	Managing Director
MNC	Multi-national Corporation
OB	Organisational Behaviour
OD	Organisational Development
OT	Organisational Theory
P/HR	Personnel/Human Relations
PDI	Power Distance Index
PhD	Doctor of Philosophy
PLC	Public Limited Company
R&D	Research & Development
RBV	Resource Based View of the Firm
SCA	Sustainable Competitive Advantage
SED	<i>Sozialistische Einheitspartei Deutschlands</i>
STASI	East German Security Police
SWOT	Strengths, Weaknesses, Opportunities, Threats
THA	<i>Treuhandanstalt</i> (GDR Privatisation Authority)
UAI	Uncertainty Avoidance Index
US	United States
USSR	Union of Soviet Socialist Republics
VW	<i>Volkswagen AG</i>
WG	West Germany

*Barriers to Change and Integration in Foreign M&As within East
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Executive Summary

Context

The fall of the Berlin Wall ushered in a period of massive economic and social change in Central and Eastern Europe and in East Germany in particular. The period since unification has witnessed the start of what will be a long economic catch-up race for East Germans. At unification, GDP per capita was estimated at approximately 30% of West Germany's, a figure set to rise to 55.1% in 1997. The comparative poverty of East Germany viz. a viz. West Germany caused difficulties in unification for both social psychological and economic reasons. Now as then differences in wealth serve to reinforce East German feelings of separateness and being regarded as "problem" relations, who are unwelcome as they are constantly demanding resources.

Economically East Germany and many East Germans feel powerless in comparison to West Germans in particular and other advanced economies in general. However the overriding contextual impression for anyone visiting East Germany in the late 1990s is the fear of actual and potential unemployment. The currency swap at a 1:1 ratio, the disappearance of COMECON export markets, poor infrastructure, the appearance of western competition and the exposure of chronic overmanning have led to every sixth East German being unemployed.

Theoretical Context - There is a body of opinion (Spender, 1992) which opines that the theory being applied to Eastern European transformation is Western based and irrelevant to the conditions of the metamorphosing economies. The usual argument in support of this opinion is that the cultures are different. Although this research found areas where western theory was applied without much thought to East German acquisitions, e.g. the extensive use of individual incentive schemes without taking cognisance of the role of groups, this thesis is rooted in Western schools of thought.

The over-arching theory comes from strategic management in general and the resource based view of the firm in particular, (Penrose, 1959). The thrust of the argument is that managers in the new M&As were not helpless hostages to the violent external environment but could control their destiny, (Baden-Fuller & Stopford, 1994). One particular mechanism available to Eastern enterprises was the mechanism of being taken over by a non-German firm. The hope was that the foreign new parent would provide financial, knowledge and other resources to allow the organisation to revitalise.

The argument in favour of mergers being an effective mechanism is not self evident. First there is a strong scepticism, especially in the economics literature, that mergers often fail to add value, especially where the two firms are not in the same market. The scepticism is further reinforced in the case of foreign take-overs by the work of Hofstede (1980 & 1991), who noted that strong hurdles will be present when firms from two different national cultures try to combine.

There is further scepticism on the benefit of any attempt to renew existing enterprises in the face of such large upheaval. The population ecology school of thought suggests that organisations are very poor at adapting to big environmental shocks, and that death is the usual outcome, e.g. (Hannan & Freeman, 1984). Moreover they often assert that death is less costly and wasteful than the alternatives.

Haspeslagh & Jemison, (1991) and others strongly contest the view that take-overs will necessarily fail. They argue that both pre-acquisition and post-acquisition actions can combine to make success. They point to managing the pre-acquisition process, and even more importantly taking actions such as the use of teams to improve integration in the post acquisition period.

In addition the work of (e.g. Miller & Friesen, 1980; Tushman & Romanelli, 1985; Strebel, 1994) provide models for suggesting that organisations can respond to violent shocks and survive. Strebel, (1994) suggests paths for renewal in his work.

The existence of these debates makes it quite clear that a study of the integration process of East German firms which have been taken over by non-German organisations is a highly relevant search site. Because of institutional history and knowledge we know that all the foreign take-overs of East German firms were engineered by the THA, and that this organisation has as a subsidiary objective that the foreign organisations not only transfer financial resources but also knowledge and other kinds of intellectual capital. Moreover, the THA was able to impose regulations and controls which permitted them to observe whether the firms were following these objectives. Our sample firms are therefore highly appropriate to investigating the relevance of foreign mergers to the process of rejuvenation. In the light of the general debates, the researcher set out to answer the following three questions:

- First, what were the key hindrances to effective integration and learning in the mergers?
- Second, in line with the suggestion of (e.g. Strebelt, 1994; Haspelagh & Jemison, 1991 and others), what were the strategic actions which eased the take-over process? In this respect, the focus is on two particular kinds of actions. The use of co-ownership as an incentive mechanism, and the role of group behaviour. It is argued that group behaviour (to supplement individualism) will be a key to success. Not only are groups seen as vital in the resource based view of the firm but they are also a key element of the culture and history of East Germany.
- Third, what implications do the findings have on the learning view of organisational success, which is currently so popular?

Data Sources and Collection

Six mergers and acquisitions (M&As) by foreign companies in East Germany were researched as cases using 36 in-depth interviews with staff at various levels in the firms. The case interviews were expanded by using two of the M&As as contrasting cases and including 12 interviews with former combine employees who had lost their jobs.

Summarised below in Table 1 are details about the M&As visited and the methods of collecting data (Table 2)

Table 1

Summary of Data Sources

- Company A - a large utilities operation, with approximately 2,100 employees. Situated in Saxony and Sachsen-Anhalt. Individual Interview with American MD
- Company B - a manufacturer of heavy electrical supply equipment, with approximately 400 employees. Situated in Berlin-Ost. 7 individual interviews
- Company C - in planning and plant assembly within the chemical and water sector, with approximately 50 employees. Situated in Sachsen-Anhalt. 10 individual interviews.
- Company D - in planning and plant assembly within the chemical and water sector, with approximately 240 employees. Situated in Saxony. 8 individual interviews followed by a more detailed case study.
- Company E - a research provider in the agricultural industry, with approximately 20 employees. Based in Northern West Germany with only sales and contract production in East Germany. 3 individual interviews as the pilot study but included in data base.
- Company F - a research provider and also producer of speciality chemicals, with approximately 100 employees. Situated in Saxony. 1 individual interview with American President, plus group interview with 6 employees. Followed up by a more detailed case study.

Table 2

Summary of Data Collection Techniques

Six cases were constructed using in-depth, unstructured interviews with a total of 48 people. 42 in individual interviews, 6 in a group interview. The total includes 12 interviews with unemployed people. There were 29 interviews in 5 of the 6 firms, and a group interview with employees of the sixth (Company F) plus an individual interview with the firm's president. Two case studies were upgraded and used as contrasting cases (companies D & F).

The M&As were chosen because they covered a full range of businesses from highly specialist genetic engineering and chemical production through engineering services to more mundane extraction and utilities. Foreign M&As were chosen for two reasons. In East Germany although foreign M&As were small in number from all privatisations (5.9%), they tended to be large in sales (15%) and therefore in importance. Secondly, the instantaneous exposure to modern Western management methods can be regarded as creating a productive laboratory to observe the working of radical change and resistance to it.

Analysis & Results

The findings distil down to two basic areas of interest which are inter-linked but separate. Additionally, the findings are counter-intuitive as the barriers to change mentioned in the title turn out to form important, potential core capabilities which, when

properly managed, could well produce sustainable competitive advantage. Both of the basic areas of interest are therefore accompanied here by sections on the implication for management.

Acculturation and the source of stress

The intermingling of two cultures is called acculturation, a term borrowed from anthropology. When two firms combine, two cultures do so as well. These cultures can be either national, organisational or in the case of this study both. During the intermingling process of acculturation, internal stress is produced. Acculturative stress being not just the difference between '*what was*' before the M&A and '*what is*' afterwards. It occurs when expectations of some proper state of affairs as to '*what ought to be*' are not fulfilled, (David, 1977). There is a clear link from M&A theory, (Jemison & Sitkin 1986), who posited that the process of negotiating an M&A affects the post deal operational fit to expectational differences. Jemison and Sitkin (1986) note that expectational ambiguity, a concept necessary to achieve a speedy end to negotiations, can cause post acquisition stress between former work identity and expected, as well as actual, new work roles. Acculturative stress need not be a negative factor, as is well known some sort of stress is necessary for life in general and commercial development in particular. So the triangle of forces at work depend upon expectations not necessarily on the reality, a cogent reason for adopting an interpretative paradigm and qualitative research philosophy. Interviews in this research showed again and again that the East German expectations of what western firms could offer in the way of new machinery, equipment, training, technology etc., were utopian, a consequence of forced separation and ignorance. From the other perspective, new western owners awaited levels of self-initiative and responsibility which were not present. In a nut shell, both acquirers and acquired had different expectations, i.e. some acculturative stress was pre-programmed.

In addition to the difference in expectations between acquirer and acquired, the other constituents of acculturative stress were found to be: psychic distance (roughly equivalent to national cultural differences), the number of new managers from outside acquired firm and the mode of combination (co-ownership merger or outright acquisition). A fifth factor, time since acquisition, was similar in all the cases and

although it affects stress, it did not influence the outcomes in this research. These five factors are operationalised into a model (Figure 5-7 in the thesis), which measures acculturative stress. The model flows from the organisational cultures of the two combining firms, adds in measures of the five acculturative stress determinants to form typologies of acculturation. Given these typologies, either congruence (low stress) or non-congruence (high stress) or some intermediary stress level occurs.

Table 3 summarises the variables of acculturative stress in each of the researched M&As.

Table 3
Acculturative Stress:
Findings Concerning Components and Intensity

<i>Source</i>	<i>Co-ownership or not</i>	<i>New External Managers</i>	<i>Psychic Distance</i>	<i>Varying Expectations Differences</i>	<i>Intensity of Acculturative Stress</i>
Company A (US)	Non- Co-Ownership	CEO only US, rest East German	High,	Large	Medium
Company B (GB)	Non- Co-Ownership	Very small number of West/East mgrs	High,	Not too large	Medium-High
Company C Sweden	Co-ownership	One Swede. Now only East Germans	High,	Low	Low
Company D (GB)	Co-ownership	One British rest East German	High,	Low	Low
Company E (GB)	Non- Co-Ownership	Top managers West German	Medium	Medium	Medium-High
Company F (US)	Co-ownership	Top managers from US or WG via the THA	Medium,	Large	High

The factors affecting acculturative stress are mainly within the control of the firm. If we take just one example, new external managers, we can see that the contrast between the American managers in Company F (the unsuccessful M&A) and the Swedes in Company C or the British bilingual Marketing Director in Company D was stark. The lack of any attempt to learn the host language by certain foreign managers sent very strong negative signals to the employees in East Germany. There is support from the

literature that the knowledge of the partner's language and a sensitivity towards cultural issues seems to be crucial, though undervalued factors for successful learning processes on both sides, (Villinger, 1996). A link was observed in Swedish Company C between what Hofstede (1991) misleadingly terms feminine aspects of managerial behaviour and the success of the foreign organisation in achieving low acculturative stress.

Does acculturative stress run on to cause success or failure? The answer to this question seems to be maybe, but not necessarily. The model measuring acculturative stress is extended further (Figure 5-8) to incorporate factors other than stress which may cause success or failure. These other factors are both external to the firm, (its business environment) and internal, (two-way learning). The business environment is relatively easy to factor into the model. However the five factors affecting two-way learning were isolated but only subjectively measured. Hence the results for two-way learning shown in the final column of Table 4 can only be described as having implicational relevance. Indeed the end result, success or failure, is dependent on time, so the extended model Figure 5-8 addresses long and short term success/failure. Firms having high levels of two-way learning are implied as being best equipped for long term success.

Low acculturative stress helps integration and acceptance of long term goals.

Coincidentally low acculturative stress does not necessarily hinder in the short term. Most mergers with low acculturative stress had survived just as well, if not better, than their competitors the rigours of the post reunion marketplace. However they were exhibiting greater employee involvement and integration, which was showing itself in an accelerating acceptance of commercial thinking necessary for survival and expansion in a market economy. Company D, which is described in a case, is a prime example. Workers were constantly in and out of each others office and also that of the imported managers, the whole process of two-way learning was definitely in full swing.

Table 4
Summary of Success, Integration and Learning in Researched M&As

<i>Source</i>	<i>Assessment of present success¹</i>	<i>Domination of western company culture</i>	<i>Degree of two-way learning</i>
Company A (US)	Quasi-monopoly position gives current success	Half and half	Medium amount
Company B (GB)	Not too successful, dire market conditions.	Medium-High level of opposition	Medium amount
Company C Sweden	Relatively successful Market conditions deteriorating	Excellent acceptance of multiculturalism on both sides	High
Company D (GB)	Relatively successful in increasingly malevolent market	Excellent acceptance of multiculturalism on both sides	High
Company E (GB)	Environmental jolt from BSE crisis meant very difficult market conditions and little success	Half and half	Medium amount
Company F (USA)	Although the market conditions are not too bad, the M&A has been terminated	Western culture rejected	Low

Co-ownership ameliorates stress and improves integration.

Co-ownership existed in three cases and appears to have a positive effect. Co-ownership is a merger where some stock and voting rights stay with the acquired firm. The top East German managers in the successful M&A case firm (Company D) were offered at the start of the merger process the possibility of obtaining 25% of the stock. Although difficult for them to raise the money in the underdeveloped banking sector, they were successful in obtaining a loan. The motivational effects of having a very direct interest in the future policy of the firm were regarded by all as very high. Likewise in Firm C, the former boss of the original section in the combine, sought out the foreign, Swedish, partner and was offered the top job and a stake in the enterprise. The difference between firms A & B outright acquisitions (no co-ownership) and mergers with East German management involvement, firms C & D, is great. The positive motivational

¹ Success is viewed as whether the firm is still in business and also producing some returns, i.e. an universalist view not comparison with other East German firms.

impulse was obvious from interviews with the Eastern managers in possession of stock and even staff without stock options.

Managing the group reduces stress and improves integration.

Past research has revealed intriguing national differences between individual-group tensions and uncertainty avoidance preferences in the USA and GB (the acquirers) and East Germany (the acquired). Even West Germany, which in the absence of direct East German figures can be tentatively used as a surrogate, showed differences here, (Hofstede, 1991). Some of the new managers especially in the less successful M&As thought that the vestiges of the old group culture in the firm hindered the process of change, e.g. by facilitating hiding in the group from responsibility or initiative. Actually it was found that this construct (the group) was so deeply ingrained into East German collective work force consciousness that attempts to eradicate it were meeting fierce resistance. Not only that, in some of the more successful organisations visited, the remains of the group were being used as an ideal launching pad for integrating new ideas and thinking into the work force, e.g. companies C&D. Whereas in less successful companies, the group remnants were either not co-opted and were acting as a brake on change, e.g. Company F, or were so splintered as to be no longer functional, e.g. Company B. However even the successful firms were racing against time as a clear relationship between the high unemployment reported in the context section and the breakdown of trust and functioning groups was reported by many of the interviewees.

In most of the six firm's investigated managers were most proud to emphasise how they were implementing certain forms of person based incentive schemes. There seems no critical assessment of whether this imported idea is necessary or not. There are certain jobs where such schemes can be positively counterproductive. Whole teams were disbanded or dissected because what they were working on no longer made economic sense, e.g. Company F's R&D. These teams had a functioning system of trust and networks which disappeared along with the team. Shift workers in Firm B complained about the increasing backlog of routine maintenance on the 24 hours in usage machines. Previously each shift had spent some of the eight hours ensuring correct settings, greasing and other routine maintenance was performed. With the move to piece rate

payments, the machines were often handed over in such a state that the following team had to stop production.

Two-way Learning as a way forward

What can we learn from the research? The research observations relevant to the extended model (Figure 5-8) are indicative rather than definitive. The subjective observations do seem to support the often argued link between low acculturative stress and the ability of new M&As to become learning organisations. Investment in replacing moribund East German plant and machinery by introducing modern IT took place in all the M&As investigated. It was not controversial and was accepted as an obvious, necessary part of expansion. However when it came to investment in human resources, the obvious link between investment and return seemed to be more difficult to grasp. The research posits that the creation of a trusting, accepting climate within a M&A, i.e. good acculturation, is the building block of a learning organisation and future success.

Foreign take-overs bring resources which provide slack. There is a body of literature typified by Nonaka & Takeuchi (1995) supporting the view that some slack is important for maintaining routines which incorporate organisational knowledge. It is theorised further from this literature that the motivational impetus gained from *entrusting at least some teams, with new projects* which fitted the company's changed goals would be rewarding. The motivation would come from having an established group as the change agent, supporting the new management. Integration of new practices and strategies would be assured, naturally at a price. The price is that the labour costs would remain high longer than under a system of rigorous employee pruning.

To be successful over the long term companies need some defensible advantage over their competitors. Organisational capabilities provide such an advantage being essentially knowledge based and the central element in the creation of Sustainable Competitive Advantage (Amit & Schoemaker, 1993). Organisational capabilities are, unlike resources, based on developing, carrying and exchanging information through the firm's human capital. The most important capabilities are core capabilities: a set of differential skills, complementary assets, and routines that provide the basis for a firm's

competitive capacities and sustainable advantage in a particular business, (Teece et al, 1990). The development of a core capability is a difficult task which requires the creation of new and novel combinations of a firm's resources and capabilities. It may take five, ten, or more years to build a world leadership in a core competence area, consistency of effort is the key, meaning a long term view must be taken, (Hamel & Prahalad, 1994).

In thinking about the challenge, it seems that management has certain options to store and integrate knowledge a task critical to core competencies. *Routines* are one of these options, (Nelson & Winter, 1982). It is argued that those routines which have been preserved from the past in the successful mergers which were reviewed (firms C&D) were accepted and internalised by the work force and as such were excellent vehicles for knowledge storage and integration. The routines and direction imposed by the buyer in the acquisitions (firms A&B) and unsuccessful merger (firm F) reviewed were not so accepted and internalised. The difference is one of agreement/non-agreement with the goals and directives which, according to the learning literature, will show up differing potentials for learning and later in business performance.

The opposite to core capabilities are core rigidity. They are sets of knowledge which have been valuable sources of competitive advantage in the past but are now inappropriate to the future competitive game, (Leonard-Barton, 1992). Over time capabilities which have heralded success in the past may no longer offer the route to future success. As the firm seeks to create new capabilities which can produce improved products and services the old capabilities can hamper the effort to develop new ones. Core rigidities gradually pervaded the majority of East German industry, thus widening the competitive gap between them and the wider market driven world.

The idea that *unlearning*, (Bettis & Prahalad, 1995), is a critical element in modernising an organisation by overcoming core rigidities is viewed in the West as an interesting, yet slightly irrelevant academic point. In Eastern Europe however it is more than relevant because the unlearning is taking place on at least two levels. People are coming to terms with the reality that state planning has failed and is being replaced by the market. In addition to the society level unlearning, the cosy world of the socialistic, monopolistic,

vertically integrated firms is falling apart. Adherence to rules from above is no longer regarded as laudable. Customer needs, a formerly irrelevant sideline, are now important. The East German worker is therefore being forced to unlearn many aspects of working life which were taken for granted up till now. The unlearning has taken place, that means a great potential for learning new capabilities and routines is on tap.

There are several promising areas for future research:

Original Model - Refinement of the measurements of the five factors influencing acculturative stress. Development of a less subjective measure of the outlook for the acquired/acquiring firms.

Extended Model - Attempt to measure strengths and weaknesses of the five forces in the extended model (Figure 5-8) which are presented as making up two-way learning.

Time - Longitudinal follow on studies to check out the predictions of success.

Design - Quantitative studies which can be generalised to industry sectors or all the East German economy.

Place - Predictions of the positive effects of unlearning could be checked by running research in East Germany (in those firms where it is present) and abroad.

Theory - New theory about foreign expansion into reforming ex-communist societies can be tested out using both the original and the extended models in other settings.

Cross-cultural comparisons - Mixed team research comparing East Germany with West Germany, CEE countries and other countries.

Intra German comparisons - To check out where and what remains from the socialist era. An example could be the observed reluctance of East Germans to give up their group based heritage.

Chapter 1

Context and Challenge of German Reunification

1. Introduction

Events were certainly happening fast in Berlin in the Autumn of 1989. An ugly concrete wall was breached and became valuable overnight as bits were sold off as souvenirs. The people of East Berlin streamed through the wall and were met with such joy by their western neighbours. Strangers embraced, impromptu parties took place. Eight years on, the euphoria is gone, together with the wall. The embracing East and West Berliners view each other with sullen contempt. The above scenario is the backdrop against which this research took place.

The research will look in later chapters at the situation of what happened in a small number of atypical East German mergers and acquisitions (M&As). Atypical because they were acquired by foreign, mainly British or American, MNCs. Qualitative research methods will be used to tease out an understanding of the process leading to the success or failure of integration of East Germans into the new, efficiency driven organisations, either as individuals or as group members. The situation is new; the pattern of resistance to or acceptance of change which emerged, may or may not be new. Indeed Isabella, (1990: 34) points out that resistance to change might alternatively be viewed, not as obstacles to overcome, but as inherent elements of the cognitive transition occurring during change. At the macro level a take-over of East Germany by the West was being experienced, what happened inside the pressure cooker of individual firms which likewise were being taken over?

The answer to this question is addressed by the field data but it also depends upon the overall approach adopted. The research topic falls within several academic fields, each having a valid argument for being considered "the" accepted approach or slant. The fields are strategic management, organisational behaviour, mergers and acquisitions and Central & Eastern European transformation. There is no escaping approaching the subject matter using literature and tools from all four areas, however the chosen overarching approach is from a strategic management viewpoint.

Strategic management merges the process, content and context of a company's attempts to reach a long-term goal, (de Wit & Meyer, 1994). As Porter puts it: "The essence of formulating competitive strategy is relating a company to its environment, (Porter, 1980), this is sometimes called strategic fit. The East German environment was changing dramatically, therefore the efforts to fit the organisations of interest in this research (foreign M&As) to their environments in times of revolutionary change coincide snugly with Porter's definition. Studying barriers to change and integration implies the heavy use of organisation behaviour theory but the theory is applied with the ultimate view of seeing whether or not the outcomes fit the firm to the new environment. Likewise material from Eastern European transformation or M&As is viewed from the strategic standpoint of whether strategic fit is helped or hindered. However strategic fit in the industrial economics Porterian sense has a lot to do with positioning, whereas by skilful leverage of existing resources and competencies, the fit with the environment can be achieved by stretching the goals, (Hamel & Prahalad, 1993). The latter view of strategy as stretching resources (the in situ East German work force) is then the lens from which the research problems will be viewed.

1.1 The East German² Context and Multi-Level Analysis

Although the country of East Germany no longer exists, see the footnote, it does form the location of the research investigation. Within this geographical area, the context of the research can be viewed from three different but interlinked levels (Stahle, 1994). The overall macro (societal) level context is beyond the scope of this research, but naturally is reflected in what is going on at the meso (firm) and micro (individual) level. Consequently the macro level phenomena are examined in this chapter and as already stated the lower level elements in the body of the dissertation itself.

² The country name East Germany will be used for ease of understanding throughout this dissertation. After the official reunification of the two Germanys on 3 October 1990, the old East Germany (GDR in English, DDR in German) ceased to exist and became simply the five new German states (Neue Bundesländer in German). However most East Germans and foreigners find it easier to envisage the area and people under their old identity.

- a. **Societal Level:** Massive underemployment and structural misallocation of assets through state planning had by 1989 brought the East German economy to a state of virtual collapse. The fall of the Berlin Wall and the absorption of East Germany into West Germany as the five new states triggered a massive restructuring of the moribund East German economy. The weak, not freely convertible East German currency unit was replaced overnight on 1 July 1990 with the strong, convertible West German DM. Meanwhile the major trading partners (COMECON countries) stopped buying and western quality imports started flooding in. Against this backdrop East German combines were privatised.
- b. **Firm Level:** The task of privatising the combines was given to a specially formed, government owned organisation called the *Treuhandanstalt* (often abbreviated to THA or *Treuhand*). The THA is introduced and discussed in more detail in section 1.1.2. The *Treuhand* split up the massive combines into sellable chunks and also started off the process of removing the layers of excess manpower. Many of these 'chunks' of combines were then sold to mainly West German buyers (74.9% of a total of 13,808 acquisitions) although some went to East Germans mainly MBOs - (19.2%) and others to foreign (non-German) buyers - (5.9%), (Treuhandanstalt, 1994). The foreign figure masks the fact that the firms taken over by foreigners tended to be big ones accounting for 15% of the sales receipts.
- c. **Individual Level:** Workers who had never dreamed of unemployment suddenly found themselves without work. The shock of unemployment amongst East Germans should not be underestimated because it was unknown before 1989 and stood at 16.0% at the end of 1996, although a further 2.8% were in job creation and 3.4% on retraining schemes (Economist, 9 Nov. 1996). Years of state propaganda had instilled in the East German population a fear that the plague of a capitalist society was unemployment and that's exactly what the above 22.2% plus others who lost their jobs but have since found employment and the 1.5m emigrants out of East Germany have experienced (Spiegel, 03.07.96). New working practices, intensity and efficiency drives on costs, plus a new wave of dismissals when the new owners worked out the uncompetitiveness of their inherited workforce led to a climate of mass uncertainty. The normal support in times of uncertainty, the group (*Brigade*), no longer functioned as before.

Having introduced the three levels of analysis and given some examples, it is proposed to split the context into four parts: economic, structural, unemployment and cultural. These classifications are by no means universal but are meant to cover the most relevant elements affecting people, their firms and their overall environment in East Germany. Each of the four context classifications will then be examined at the macro level of analysis, always with an eye directed at the dissertation title to avoid irrelevance. The meso and micro level form the material of the field research.

1.1.1 Economic Context

Extremely relevant to research on barriers to change and integration is the question whether antagonism is produced because East Germans feel that they are the poor, unwanted cousins in the new reunited Germany. In fact as we shall see, that is exactly how they feel and how they will remain for some considerable period of time. Disparity in economic terms is usually reflected in disparity in political terms leading to frustration, envy and ultimately anger. Conditions of mind quite unsuitable for achieving a smooth transition to full integration inside a market economy or indeed a M&A operating with Western partners who were richer and more powerful. So were the East Germans disadvantaged?

To answer this question we need to return to the time of the fall of the Berlin Wall in 1989. The comparison between several leading social and economic indicators about East and West Germany at that time is informative but potentially misleading, see Table 1-1.

Table 1-1

**Start Position
Economic Indicators in East & West Germany (1989)**

	West Germany	East Germany	%
Population, millions	62.1	16.6	26.7%
GDP per head, \$	19,283	5,840	30.2%
Exports, % of GDP	28.3	24.5	NA
Imports, % of GDP	22.4	24.3	NA
Farm Population, %	3.7	10.8	NA

* Source: Economist 10.05.97: 84

The figures are informative as one sees a certain similarity in the overseas trade dependency, however the East German trade was mainly with the COMECON³ countries, whereas West Germany's trading partners were much more widely spread. With unification, the East German population added another quarter to the number of people living in Germany. The GDP figures are misleading as the East German statistics were questionable at the best of times. According to the official GDR announcements, interestingly enough agreed with by western intelligence gathering agencies like the CIA, the East German economy was the ninth largest in the world. One of the problems was that a lot was produced, but no one wanted it. The old jokes about trabant cars stopped by chewing gum on the roadway and condoms which furthered population growth not control contained the element of truth that quality levels were minimal. Additionally and typical of a command economy, shortages existed due to mismatches in the planning and lack of demand information. Door knobs were produced for the left hand side of cabinets between January and June, the right hand ones followed, given luck, from July to December. The waiting list for the aforementioned Trabant was 25 years and rising. Whatever was produced went into the GNP figures regardless of it was ever used (bought) or not. A similar problem existed in converting the GDR figures based on the Ost Mark into "hard" currency equivalents. The official exchange rate was usually around twenty times lower than the real (unofficial) one, but was only achievable by making an illegal transaction. All in all it is

³ COMECON was founded in 1949. Founder members were USSR, Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. Later admissions were Albania (1949 - 1961), Cuba (1972), East Germany (1950), Mongolia (1962) and Vietnam (1978).

safe to say that on the day of reunification most East Germans were substantially poorer than their reference group in West Germany. Not only were they poorer they felt it due to constant comparison with West Germans as would be expected from theory on social comparison, (Festinger, 1954). The unflattering comparison then provokes feelings of lack of equity, (Adam, 1965).

But are the income differentials a temporary phenomenon which will quickly even out? If this were the case, then the East German feelings of lower social standing and inequity which hinder integration would also quickly disappear. A review of how the GDP has grown since unification in both parts of Germany is shown below in Table 1-2. The initial high growth rates in East Germany based on a construction boom have disappeared and the remaining modest gains are heavily dependent upon large public sector transfers. Figures from before 1992 for East Germany are either not available or are questionable or are in another format.

Table 1-2

Changes in Gross Domestic Product (GDP) after Unification

	1990	1991	1992	1993	1994	1995	1996	1997 (EST.)
Germany Total	N/A	N/A	2.2%	- 1.2%	2.9%	1.9%	1.4%	2.5%
West Germany	5.7%	4.5%	1.6%	-1.8%	2.4%	1.6%	1.3%	2.3%
East Germany	N/A	N/A	7.8%	7.2%	8.5%	5.3%	2.0%	2.0%

Source: Statistisches Bundesamt + B.M.Wi. Jahreswirtschaftsbericht 1996

With unification came also unification of economic statistic collection and standards. The latest figures for GDP show a much different picture from that seen in Table 1-1. For instance whereas using the questionable 1989 figures East Germany had a GDP per head of 30.2% of West Germany, by 1994 this had changed to 50.6% and in 1996 to 54.5%. So a catch up process is underway, but it will take much longer than was anticipated at reunification. The ifo Digest, Quarterly Journal on Economic Trends in the Federal Republic of Germany, (Vol. 20, March, 1997: 3) reports the situation so: "Six years after the German currency, economic and social union the high growth phase in East Germany is over; the catch up process with West Germany is only making slow

progress, despite the still high investment/GDP ratio. Although the disappointing performance of East Germany also reflects cyclical influences like the long growth pause in West Germany, it is mainly due to the fact that no self sustaining growth process could be initiated despite unusually high capital accumulation. In 1996 nominal GDP per capita in East Germany reached 54.5% of West German levels (the equivalent of DM 25,759 per head), which is only 1.5% more than in 1995 - and despite gross public transfer payments of DM 11, 910 per capita annually⁴. If the present slow pace of convergence continued (measured in terms of differences in growth rates), it would take 15 years just to halve the current per capita income gap between east and west, i.e. go from 54.5% to 77.2%".

The catch up process mentioned previously is shown below in Table 1-3

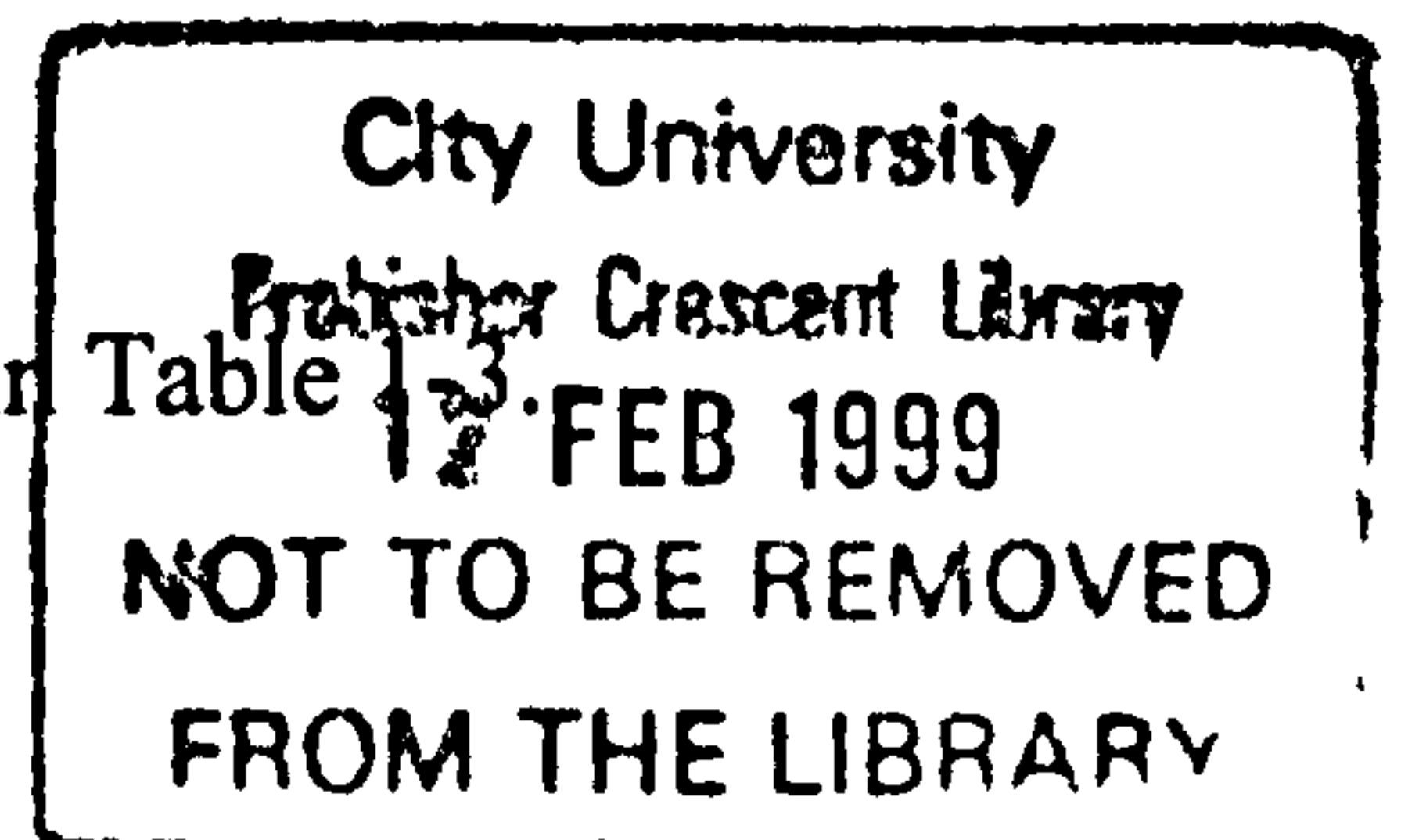


Table 1-3

**Gross Domestic Product (GDP) Per Capita Using Current Prices
East German as a % of West German Levels**

	1990	1991	1992	1993	1994	1995	1996	1997 (EST.)
East Germany	N/A	31.3	38.5	46.2	50.6	52.8	54.5	55.1

* Source: Die Lage der Weltwirtschaft und der deutschen Wirtschaft im Frühjahr 1997
Arbeitsgemeinschaft deutscher wirtschaftswissenschaftler Forschungsinstitute e.V.

So the East German population was relatively poorer in 1989, still is in 1997 and will be well into the 21st century. This fact plays on the collective psyche of East German workers causing emotions ranging from apathy to resentment. All these feelings make a poor starting point for achieving integration.

1.1.2 Unemployment Context

It is interesting to note that the change over to a market economy has been achieved, if the statistics as shown in Table 1-2 are to be believed, with no loss in GDP in Germany as a whole (small exception in 1993) and with significant rises in East Germany. Why

⁴After deducting additional revenues from taxes and administration stemming from East Germany, public transfers to East Germany amount to DM 8,675 per inhabitant.

then all the misery and doom prophecies in the mid nineties? The answer is that the increase in GDP has not been spread equally across the people of East Germany. As in Thatcherite Britain, there has been a growth of economic inequality in East German society, albeit from an artificially balanced distribution of incomes at the end of the communist era. The most obvious cause has been the rise in unemployment. Those maintaining employment have benefited from the rising GDP, those losing their jobs have not. But even those lucky workers who kept their jobs noticed that they were considerably poorer than their West German counterparts doing roughly similar work.

The importance of unemployment to this research lies in the corrosive effect it has on the ability to accept both change and integration. We have already discussed, in the economic context section, the inequity of economic well being between West and East Germany. The economic inequality creates an atmosphere of mistrust, exactly the opposite of what is needed to ensure smooth integration between the western and eastern partners in the M&As. The effects of unemployment were, according to the people interviewed, even more drastic. There are mixed views in academe about the need for a crisis to usher in the acceptance of change or to hinder it. Kanter, 1985 believes that stability is necessary to ease the acceptance of new working methods, technology and organisational cultures. The majority of authors in the change management field as typified by Clarke, (1994); Plant, (1987), point to the need to even artificially create a crisis, so that the importance of the need for change sinks in. There can be no argument that a crisis of confidence was present in all the firms researched and in East German industry in general. The lack of confidence and feeling of instability experienced by East German employees stemmed mainly from the fear of unemployment, both potential and actual and was well placed as we shall now see.

In November 1989 just after the fall of the Berlin Wall there were 9.7 million workers in East Germany (zero unemployment), by the start of 1997 this had dropped to 6.2 million workers (16.2% unemployment)⁵. Once again these official figures hide much. A critical review of the official story is published each year by the Alternative Management Political Work Group. In their Memorandum '92: 59, they publish the

⁵ These are the official Government figures as published by the Bundesanstalt für Arbeit (Federal Labour Office) and the Statistisches Bundesamt (Federal Statistics Office).

following break down of what they call the "real" picture. Of interest here is the 41.3% fall in the potential work force from 10 million to 5.87 million between 1989 and 1992. This was accompanied by a rise of unemployment from zero to 1,343,400. The alternate thesis being put forward was that the unemployment figures alone, although critical, were only a part of the story and underestimate the problem. It is the fall in potential workforce, not just unemployment per se that has had the largest effect. In 1992 the potential workforce of East Germany was reduced by:

760,000 workers going on early retirement, 540,000 commuting to West Germany, 445,000 in further education or reeducation in another craft/profession, 393,500 in Labour Office supported work and 519,700 being on short term work assignments.

Influences on the Level of Unemployment - The causes of the massive changes in the employment participation rate are well known and will be listed here. The list which is not all-inclusive is made up of:

Economic causes:

- Sudden arrival of competition from the West.
- Currency reform at DM 1 = Ost Mark 1 (the Ost Mark was the 'funny' money of the DDR) with the result that labour costs soared in comparison to productivity.
- Collapse of the former export markets of COMECON, inducing reduction in demand not just in export firms but in their suppliers e.g. electricity production.

Political Causes:

- Decision to scrap public ownership in favour of private
- Overmanning as seen with jobs for life and no unemployment

Managerial causes:

- Marketing not plan fulfilment became critical.
- Outdated and worn-out equipment.
- Concepts about the importance service or quality were unknown.

The above listing of causes of the lower employment participation rate in East Germany can be generalised and split into six problem areas: wages, productivity, sectoral, investment, Treuhand and structural.

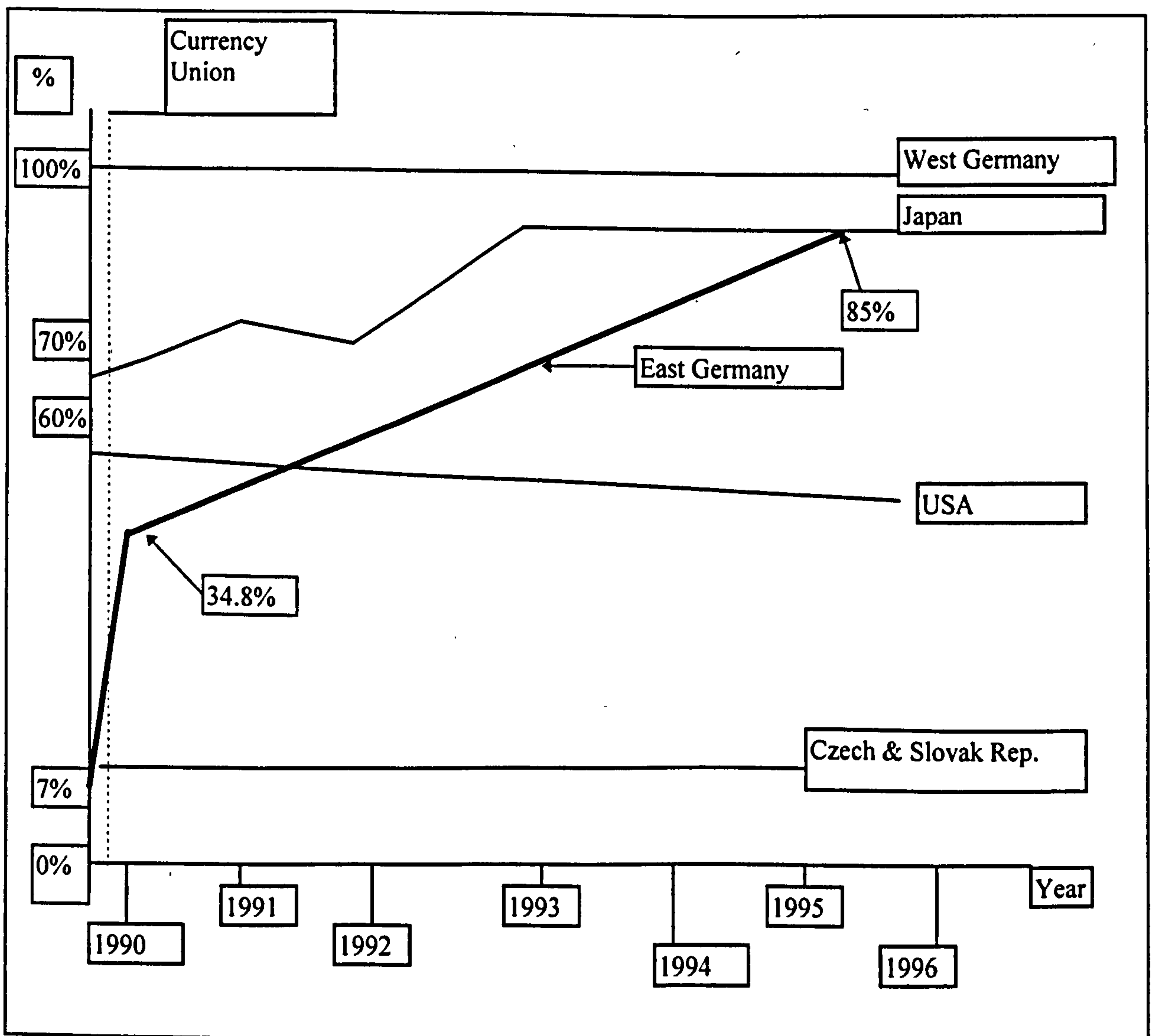
The wages problem: Sudden increases in a firm's wage bill can only be offset by increased productivity or higher end prices, given the latter the competitors of the firm will be able to take away customers and eventually the firm will become insolvent. This non-rocket scientist wisdom burst upon East German industry after monetary union. Figure 1-1 shows the growth of wages in East Germany in comparison with their international competitors. Before unification East German wages were 7% of those in West Germany, the wage rate quadrupled immediately after currency conversion. Negotiated wage settlements since then have ensured an 1100% increase in wages over six years, or an annual average increase of 51%. By 1993 the wage levels of USA and Italy had already been exceeded. The excessively high relative wage level has led to uncompetitive businesses, bankruptcies and unemployment. The position is so perverse that in the manufacturing sector in 1993, total wages were 80% higher than the value added by workers in the sector, (Sinn, 1995: 407). The explanation of this can only be that part of the wage bill was being financed by capital, consumption or government subsidy.

Another snippet of economic wisdom concerns the fact that after reunification, West German trade unions and employers' representatives negotiated the wage increases in East Germany. It may be slightly paranoid but the view is well established in East Germany that the West German negotiating partners were not about to tolerate a low cost competitor - a "tiger" in their own parlour, (Sinn, 1995: 408). The result could have been that if wages were restrained by 1%, with a given capital stock, a potential increase in employment of 2% could occur. In fact the opposite happened, wages were pushed up and the relationship just described worked in reverse. The placing of blame on West German union negotiators for rising unemployment gives an inkling of the underlying lack of trust between West and East. Lack of trust leads to polarisation and lack of integration.

The problem is exasperated by the fact that the other reforming central and eastern European economies were not saddled with an uncompetitive currency and built in inflationary wage negotiating processes, see the level of comparative wages of Czech and Slovak workers in Figure 1-1. Hence jobs have been exported from East Germany even further eastwards.

Figure 1-1

Growth of Wages in East Germany compared with International Competitors



* Source: Sinn, (1994)

The Productivity Problem - Another element with a bearing on employment which needs an airing is that of productivity. There has indeed been a marked increase in the labour productivity in East Germany, see Figure 1-2 below and the base numbers supporting it in Table 1-4. This increase however may owe much to the fact that all the jobs which have fallen out of the calculation, due to liquidation, were the lowest

productive jobs and therefore their loss has had an over-proportional effect on the productivity figure.

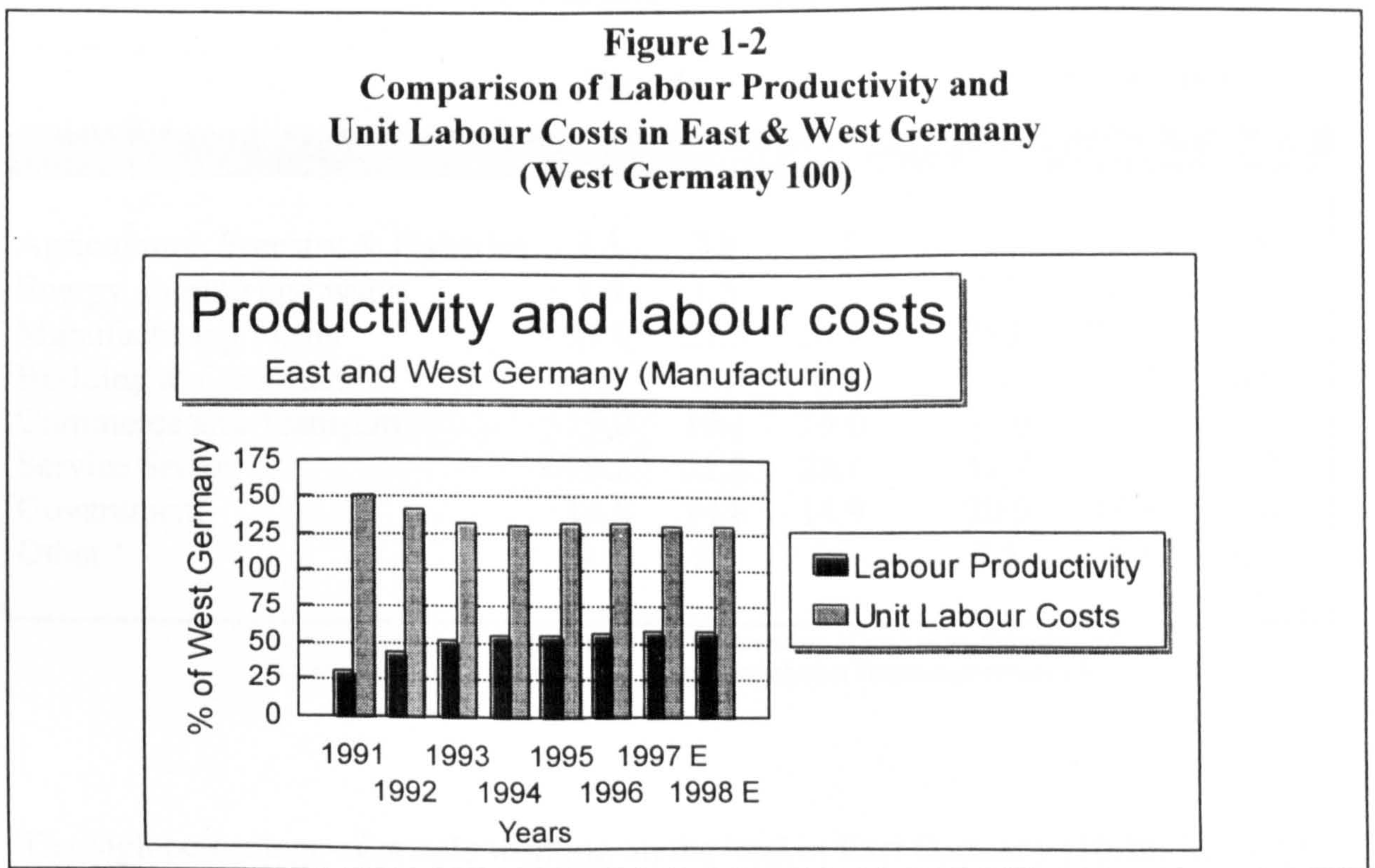


Table 1-4

Comparison of Labour Productivity and
Unit Labour Costs in East & West Germany
(West Germany 100)

East German:	1991	1992	1993	1994	1995	1996	1997
Labour Productivity ⁶	31.0	43.1	51.6	54.3	55.2	56.8	57.9
Unit Labour Costs ⁷	150.7	140.9	131.6	129.8	131.2	130.0	129.1

Sources for Figure & Table: Jahreswirtschaftsberichte B.M.Wi. 1994 & 1996

However the gains in productivity although impressive still leave East Germans behind West German standards. The productivity gains are swamped by the wages problem so that the end effect is unemployment.

The Sectoral Problem - The various sectors of the East German economy have experienced different fortunes since reunification, see Table 1-5 below.

⁶ Gross Domestic Product per head of population at current prices

⁷ Gross Domestic Income per employee divided by Nominal Gross Domestic Product per employee

Table 1-5

**Employment per Sector in West and East Germany
(% of total work force)**

	West Germany			East Germany		
	1991	1995	1996	1991	1995	1996
Agricultural, Forestry & Fisheries	3.3	2.8	2.7	6.2	3.5	3.3
Energy, mining and water	1.6	1.5	1.4	3.2	1.7	1.5
Manufacturing Firms	31.0	27.3	26.7	28.0	16.2	15.9
Building & Construction	6.6	6.9	6.6	9.6	16.8	16.6
Commerce and Transport	19.0	19.1	19.0	17.0	17.6	17.5
Service Sector	19.2	22.3	23.1	12.7	20.5	21.7
Government	14.8	14.8	14.9	20.5	18.8	18.4
Other	4.5	5.3	5.5	2.8	4.9	5.0

* Source: Die Lage der Weltwirtschaft und der deutschen Wirtschaft im Frühjahr 1997
Arbeitsgemeinschaft deutscher wirtschaftswissenschaftler Forschungsinstitute e.V.

The high percentage of people working on the land in East Germany (10.8% in 1989) showed a potential labour supply for growth in services and manufacturing. Indeed as the figures show this percentage shrank quickly and drastically to a level (3.3% in 1996) approaching that of West Germany. It also raises an interesting factor that East Germany should not be treated as having a unified structure. Many of the northern East German provinces were heavily agricultural, whereas others e.g. Saxony and Saxon-Anhalt (where most of the research interviews took place) were the most heavily industrialised area in Europe - no more! It now has a lower share of manufacturing jobs than Portugal or Ireland, (Sinn 1995). Thus regional sectoral factors exacerbated economic equity disappointments building up even more emotion in the firms sampled.

Deindustrialisation - The talk of deindustrialisation is no exaggeration with regard to jobs. The East German manufacturing sector now employs only 15.9% of the work force, in comparison to West Germany where there are still 26.7% of all employees in manufacturing. Even this 15.9% of the workforce hides the massive cuts in this area as the overall workforce has shrunken due to emigration, early retirement etc. A good rule of thumb is that 80% of the manufacturing work force lost their jobs. The remaining workers and firms have increased their productivity and output per head (only the

efficient can survive), and so the deindustrialisation claim is true of employment but not output. Even so the output reductions were from an historical viewpoint almost unprecedented in peace time conditions. In the few months between the currency union and the end of 1990, East German industrial output fell from 86% of the 1989 level to 45.5% (see Table 1-6 below) and GNP by 40% (Sinn, 1994: 7).

Table 1-6

East German Industrial Output

Period	Industrial Output 1989 = 100
1986	92.1
1987	94.8
1988	97.7
1989	100.0
1989-October	100.6
1989-November	98.6
1989-December	97.6
1990-January	94.4
1990-February	96.6
1990-March	97.8
1990-April	97.0
1990-May	92.1
1990-June (currency union)	86.0
1990-July	56.0
1990-August	47.9
1990-September	48.9
1990-October	49.5
1990-November	50.9
1990-December	45.5

Source: Akerlof et al (1991): 6

The best historical comparison is the Great Depression at the end of the 1920s brought about a crash in manufacturing in the USA and Germany of about 40% and GNP between 20-30%. It must be noted that we are talking here only about INDUSTRIAL output not GDP in total which includes services, construction etc. The effects of construction are discussed next.

The Investment Problem - The building sector has played an artificially large role in keeping the East German economy from crashing completely. The construction boom is

mainly viewed as being a government transfer of funds to update the antiquated East German infrastructure. Actually even though by the end of 1996 about 1 trillion marks had been invested in the *Neue Bundesländer*, the lion's share 84% is accounted for by private sector investment, see Table 1-7.

Table 1-7
Investments in East Germany 1991-1996
DM Millions

	1991	1992	1993	1994	1995	1996
Private Sector	75.2	102.9	126.8	150.4	167.1	175.5
Public Sector	15.4	24.0	25.2	29.0	30.0	32.0
Total	90.6	126.9	152.0	179.4	197.1	207.5
Cum. Total	90.6	217.5	369.5	548.9	746.0	953.5

* Source: (German Federal Government Report on the New Federal States, Sept. 1996).

The Government transfers should not however be disregarded, especially as they were in public good areas such as transport, telecommunications and sadly unemployment pay. Measured on a per capita basis, each year East Germans receive transfers from the west that equal nearly three times the annual Polish disposable income! (Sinn, 1995: 404). Naturally this fact enrages West German taxpayers footing the bill, but more subtly places East German workers in the unenviable position of feeling dependent on outside help. The socio-psychological fall out of East German feelings of dependency is a tendency to more helplessness, as seen in lack of initiative and fatalism. A passive recipient mentality bodes ill for the achievement of successful integration, as the incoming Western management can force through their dogma. An integration is not achieved more an assimilation.

Restitution - Investment has been hampered by the problems associated with the restitution of property. Two groups of ex-owners were offered the possibility within the reunification treaty to recover the property that was taken from them. Firstly, between 1949 and 1989, the DDR government confiscated property from people who fled East Germany or simply to expand "key" industrial development. The second group of potential restitution receivers were mainly Jewish families whose property was

confiscated by the Nazis between 1933 and 1945. Interestingly, there is a third group, those from whom the Russian occupation forces between 1945 and 1949 took property. These claims were specially not permitted due to pressure from the Russians at the "2 + 4 talks" preceding German reunification.

The end product of the socially fair ideas underlying the restitution laws was that investment was stifled. It took until 1994 before even a third of the restitution claims had been processed, during which time little new investment took place. Existing owners or managers were not prepared to risk investing large sums in modernisation just to see some long lost owner crawl out of the woodwork and take away the renovated factory, building or farm. An idea of the size of this problem is that in the most extreme circumstances e.g. Leipzig, 90% of all real estate space was being claimed as restitution. In many other cities the figure lay around two thirds of all space (Sinn, 1994: 13). The combined German government realised (far too late) about the investment problems being caused and introduced an avoidance of investment hindrance clause into the restitution laws, which allowed the following: An investor could opt to buy an old business and would have to put forward a business plan which included investment amounts and job retention quotas (the usual sort of requirements when dealing with the Treuhandanstalt). Any prior owner claimant then had three months to decide whether to take over the business on the basis as laid out in the plan. If he refused then the firm was sold to the new investor and the old owner would receive the purchase price when and if his claim was supported. The effect of this well meaning clause was minimal, only 15,000 cases have used it, from 2 million potential disputes. Sinn, (1994) reasons that East Germany was really in a pre-Coase state. Ronald Coase pointed out in 1960 that for a market economy to work well, it didn't matter to whom any property belonged, only that it belonged to someone. The barriers to investment have hindered economic growth and thus negatively affected the sample M&As and increased uncertainty in their work force.

The Treuhand Problem - Another investment dampening reality was the policy of the Treuhandanstalt to only sell firms for cash. This led to a situation where the East German population had no chance to invest or gain control of their own industry. Remember the East German work force had already paid once for building up the

combines, through lower wages than they would have received if there had not been a policy of compulsory public investment in industry. The very same combines which they had worked in and paid for were now offered to the highest bidder. Seeing as there were low levels of savings available in East Germany, even after the one for one Ostmark - DM exchange, then its not surprising that only about 6% of the THA sales went to East German buyers. Even western buyers had to stump up the purchase price and then multiply it several times over to bring the facilities up to modern standards. With the benefit of hindsight, the THA would have been well advised to sell against pledges of future profit earnings, thus freeing up necessary capital at the start for the modernisation process.

The *Treuhandanstalt*, the privatisation authority for East German industry, is a controversial institution which exerted important influence directly into the area covered by this research. A short introduction to the *Treuhand* can help set in place its effect on the context of transforming East Germany.

It is a little known fact that the organisation set up to shift state owned East German industries (*Kombinate*) into the private sector was set up before reunification. The government of Hans Modrow (the second replacement for the terminally ill Eric Honecker) founded the *Treuhandanstalt* (THA) in March 1990. It was more probably viewed as a delaying tactic to prolong communist rule. Certainly with the arrival of West German Detlev Carsten Rohwedder plus unification in October 1990, the ambitious goals and pressure to achieve them became real.

The job was massive. The THA was the largest holding company in the world. It encompassed approximately 9,000 enterprises with 4.08 million employees, about half of the total employment in the old East Germany. Rohwedder adopted a "top-down" method of privatisation using sales of enterprises to competent outsiders. Competent outsiders were firms which had a knowledge of the industry in which the core activities of the enterprise were based and had access to finance required to the firm competitive. The "competent outsider" approach led to swift deals but raised criticism, especially earlier on when the cards were stacked in favour of West German acquirers.

The *Treuhand* used four negotiating variables in their dealings with potential acquirers. They were:

1. Amount of investment promised to be pumped into the enterprise after purchase.
2. Number of employees guaranteed a job after privatisation.
3. Adequacy of business plan and the management competence of the acquiring firm.

These three criteria were viewed as being independent variables and dependent on the levels of guarantees offered, the fourth variable - the purchase price - would be reduced as recognition of the scale of responsibilities assumed.

Whatever else is said about the *Treuhand*, one fact cannot be disputed, it privatised quickly. Indeed so speedy was its work that the world's largest holding company had eased itself out of existence by 31 December 1994, i.e. in under five years.

Although the THA started off with around 9,000 organisations on its for sale list, the number initially kept rising! The reason being that the THA played a restructuring role in preparing the former state owned combines for sale. These mammoths were split into more saleable chunks and reorganised so as to have more competitive structure with which to face for the first time competition. This process of splitting up and reorganising the combines led to heavy layoffs and criticism of the THA. The reduction in manpower at firms managed by the THA is shown in Table 1-8 below, however the steep decline is due to sell offs as well as restructuring so the whole 2.5 million reduction was not due solely to layoffs.

Table 1-8
Employees in Treuhand Firms
(millions)

1 July 1990	4.08 million
31 December 1994	1.50 million

* Source, Treuhand Schlußbericht, December 1994

The hard nosed policy did ease the task of acquiring firms as much of the “dirty work” had been done for them. Especially bearing in mind that under German labour laws separating employees can be difficult and costly.

The closing balance of the THA’s work is shown below in Table 1-9.

Table 1-9
Total number of firms and part firms as at 31.12.1994

Privatised in various forms	8,600
Totally liquidated	152
Being liquidated	3,565
On sale offer	69

* Source, Treuhand Schlußbericht, December 1994

The Structural Imbalance Problem - The link from investment, or lack of it, to structure is relatively straight forward. The East German industrial stock was run down, ancient, inefficient, but more important was also producing (mainly heavy industrial) products which were not in demand. The latter point was due to political ideology and the lack of the invisible hand of a market economy.

The following section is meant purely as a typical example of governmental instigated sectoral imbalance. One of the sample companies, Company A, operates in the power generation sector and emphasises vividly the heavy job losses associated with the correction of sectoral imbalances. The East German power and heating industry was dominated by locally open-cast mined brown coal. The reason being that there was a politically motivated decision to artificially inflate the usage of brown coal in the generation of electricity. The comparison with the more ‘normal’ West German mix is informative, see Table 1-10.

Table 1-10

% of Total Electricity Generation in 1994 produced by brown coal

West Germany	18.2%
East Germany	88.4%

Source: Schiffer, 1995: 63

The introduction of market forces and tougher environmental laws brought about a sea change in how houses were heated, see Table 1-11. There was a dash for gas as private households and small businesses switched from brown coal briquettes to gas fired central heating. Where gas was unavailable, then oil fired central heating gained a foothold.

Table 1-11

% of heating of all East German housing

Type of Energy	1989	1994
Coal	72.6	38.0
City Heat	23.9	27.0
Gas	2.5	23.0
Oil	0	9.0
Electric	1.0	3.0

Source: Schiffer, 1995: 262-263

The effects on industrial structure of these massive changes in demand reflected in a 66% downturn in output and a 78% loss of jobs between 1989 and 1994 for companies associated with coal. The above is an example of a scenario which was repeated throughout many other sectors, bringing in its wake heavy structural unemployment.

So in conclusion there were substantial structural imbalances in the East German economy at the end of the communist era. These imbalances reflected in actual and potential unemployment, as discussed above, but increased an already worrying East German perception of economic and social disadvantage. The fall out from the feelings of disadvantage being a psychological barrier between them (West Germans) and us (poor, dependent, powerless East Germans). Them and us stereotypes are barriers to change and integration.

1.1.3 Cultural Context

The East German feelings of separateness caused by economic inequalities and rampant unemployment are unfortunately exacerbated by what should be a unifying factor - the common culture. Is it possible to talk of a German culture or are there two, one for the ex-DDR and one for West Germany? The answer to this question affects the research in so far as any cross-cultural research citing West Germany can only be used as a parallel for East Germany if commonality exists. More relevant however is the probability that perceptions of cultural difference will enhance difficulties in achieving integration.

A poll of German opinion (Spiegel Nr 27/3, July 1995) showed 67% of Germans supporting the statement 'the Wall is gone but the wall separating our thoughts and feelings is growing'. What then is going on inside the heads of East Germans?

One body of literature on East German current culture, which is certainly above the anecdotal level, but would not get much thrift in refereed journals, is the trilogy of books by Hans-Joachim Maaz (1990,1993,1994). Maaz is the head physician of a Halle (East Germany) psychological clinic and as such has had much opportunity to see the trend in mental health both before and since the new era dawned.

Maaz analyses the socialism in the DDR and shows how just about everyone suffered from some form of repression, be it from the state, Stasi, justice, education, family, medicine or religion. The outcome of this constant repression was, and is, a feeling of deficiency and blockage of avenues to express feelings. These internal feelings have developed into a craving for the non-existent more stable past, with a tendency to seek out authority and obey and depend on it. Confronted with changed ideals such as creativity and self-reliance and disappointed with the new economic and social conditions, the average East German feels lost in a sea of insecurity. Add in the collision with the western world with its egocentricity, then an explosive recipe exists which can detonate with little warning. The ability of a psychologist to take his individual observations and forecast the state of the nation's people is risky (see

methodology section). However, Maaz's issues are of importance to the research and for instance the lack of self-reliance was commented upon as early as the pilot study.

Certainly there was every reason for people in East Germany to feel insecure and repressed. "In 1988 - the last "normal year of the DDR - the Ministry of State Security (the Stasi) had some 110,000 regular informers, while an additional 60,000 people were involved in "conspiratorial" services, such as lending their flats for secret meetings, or were listed as reliable contacts. The ministry itself had more than 90,000 full-time employees. Setting the total figure against the adult population in the same year, this means that one out of every 50 adult East Germans had a direct connection with the secret police. Interestingly the Nazis in 1941 had nothing like this figure, the full time staff of the Gestapo, for the vastly larger territory of Greater Germany, came to fewer than 15,000," (Ash, 1997: 164).

A recent study in the Economist (9.11.1996: 6), supported the thesis that there is still a wall in the heads between people in East and West Germany. "...two-thirds of the people in the *neue Länder* consider themselves first and foremost "east German" whilst 40% of those in the old *Länder* as "west German". If the two sides still define themselves differently, they will, by implication, also see differences between themselves and the other kind of German". Numerous opinion surveys carried out for intellectual magazines in Germany and abroad by the EMNID group have shown startling differences in perspective on common issues between people living in the East and West of Germany. A few examples:

Questioned about whether life was better or worse since the fall of the wall, East Germans and West Germans showed large differences in opinion, see Table 1-12.

Table 1-12
Comparing Lives (1996)

Perception of life after unification	West Germans	East Germans
Worse	48%	89%
The Same	43%	9%
Better	7%	1%

* Source: EMNID in Economist, 9.11.1996

The gulf between the two populations is widening not closing. The same survey conducted about 12 months previously and shown in Table 1-13 came to the following results.

Table 1-13
Comparing Lives (1995)

Perception of life after unification	West Germans	East Germans
Worse	43%	53%
The Same	28%	33%
Better	25%	13%

* Source: EMNID in Spiegel, 3.07.1995: 41

Both sets of Germans saw a deterioration in their lives, the East Germans were much more pessimistic. Indeed when asked about their opinion whether the mental differences were increasing (the wall in the heads), two thirds of East Germans agreed, some (15%) going so far as to wish to have the wall back!

There seems to be a rising nostalgia in East Germany for the "good, old times", which cannot be based on hard economic or social facts. In Table 1-14 a whole batch of quality of life variables or areas were examined, both early after unification and five years later. The views amongst East Germans changed to seeing the DDR as being better in 7 as opposed to 3 of the nine areas.

Table 1-14

Comparing Lives 1990 Vs. 1995

In answer to the question *"was the DDR or the BRD better in the following area?"* East German respondents replied:

Quality of life Area	1990	1990	1995	1995
	West Germany was better	East Germany was better	West Germany was better	East Germany was better
Living standard	91%	2%	85%	8%
Protection from crime	13%	62%	4%	88%
Equality of women	10%	67%	3%	87%
Research & Technology	87%	2%	63%	6%
Social security	16%	65%	3%	87%
Schools	36%	28%	11%	64%
Career training	36%	33%	11%	64%
Health care	65%	18%	23%	57%
Availability of housing	34%	27%	21%	53%

* Source: EMNID in Spiegel, 3.07.1995: 41

With the best will in the world it is difficult to rationally support the claims by East Germans that health and schools have deteriorated since the fall of the wall. The reason seems to be a feeling that people in the old East Germany are just tolerated as a burden and are treated as second class citizens, see Table 1-15.

Table 1-15

2nd Class Germans

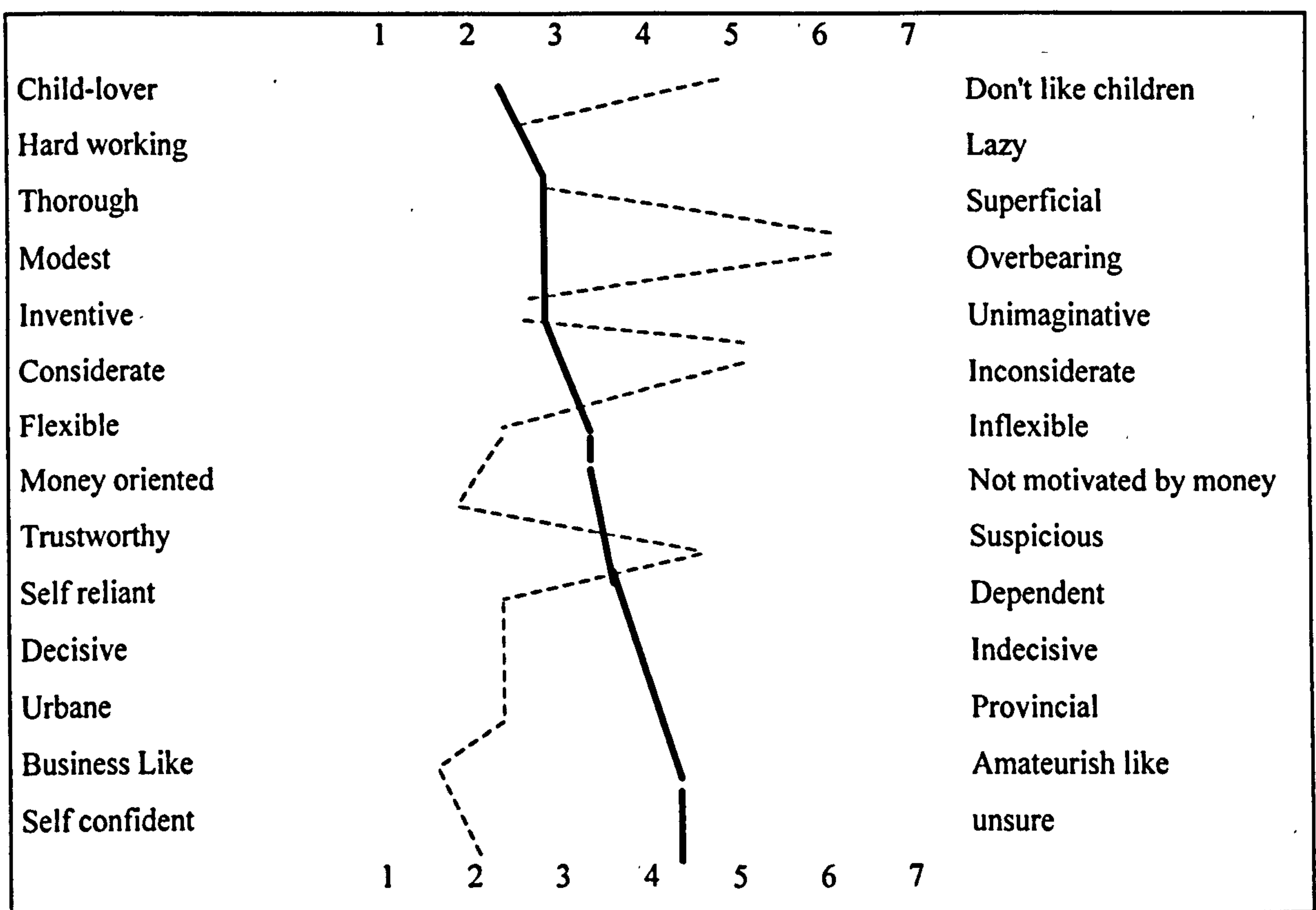
In answer to the question *"whether the citizens of the ex-DDR are second class citizens?"* Table 1-13 shows the responses:

Perception of Status of East Germans	West Germans	East Germans
Yes, 2nd Class Citizens	22%	72%
No, not 2nd Class Citizens	72%	27%

* Source: EMNID in Spiegel, 3.07.1995: 49

The above discussion of the differences between the attitudes of the two sets of Germans either side of the former iron curtain illustrates that there is a difference, which may be temporary or not, in their cultural identity. That there are differences between people brought up in a market lead democracy and people developing in a politically closed, command economy should not be a surprise. Of more specific interest to the aims of this research are those differences which may have a bearing on the acceptance of change and integration. Once again there is a major difference between how West Germans view East Germans and how East Germans view West Germans. Figure 1-3 shows a diagram of qualities mapped on a 1-7 Likert scale.

Figure 1-3
East & West Views on Personal Qualities of their Counterparts



* Source: EMNID in Spiegel, 3.07.1995

———— = East Germans talking about East Germans
 - - - - - = East Germans talking about West Germans

1.1.4 Discussion about the Macro Level Context

Many of the data and topics discussed above were macro level phenomena. Although necessary to set the scene, it is their trickle down effects upon the firm and groups (meso level) and individuals (micro level) which will influence this research. Three general themes can be seen as pervading most of the material discussed in the context review above. These themes or areas (competitiveness - introduced in the economic and unemployment context sections, unemployment, and mental differences - introduced in the cultural context section) are given further attention below.

Lack of Competitiveness - The abrupt plunge in East German output and employment occurred not because the demand for goods and services suddenly dropped⁸, rather because this demand could be more effectively met (in terms of price, quality, delivery schedules etc.) by producers other than in East Germany. The alternate sources of supply were mainly from West Germany where under-utilisation i.e. slack, could be quickly and cheaply used to ratchet up amounts supplied. As fixed costs were already covered, any further output from West German factories would incur only the variable costs. Average total costs (ATC) would therefore fall, especially where appreciable slack was in place. The question naturally arises: how can it be cheaper to produce in West rather than in East Germany? The answer contains elements already surfaced earlier in this context chapter e.g. lower productivity, increasing, now almost equal, wage levels, as well as the usage of slack production capacity. Additionally three problems associated with quality led to East German uncompetitiveness: capital, management and labour.

Quality of Capital - West German enterprises possessed in general a much more modern stock of capital goods. These allowed more precise standards and shorter stoppages for repairs or maintenance. Not only was the capital stock more modern, the network of sub-contractors was much wider in West Germany. This was due mainly to East

⁸ Demand did suddenly drop in those areas where the demand was of the artificial state planner type and not customer driven. Classical economic theory states however that wants are unlimited, so therefore reduction in demand in one sector will be offset by rising demand in the next sector where marginal utility is higher than price.

Germany's attempt to produce everything necessary for a specific product in a vertically integrated combine, negating any need for an intermediate product industry⁹.

Quality of Management - Modern management methods were not practised in the old DDR, meaning not only that production management techniques were dated but also concepts like marketing were particularly unknown, a fact which explains some of the success of new sellers to the East German market. Managers in East Germany tended to be technical people, financial or economic backgrounds were rare. Hentze & Lindert (1992) found economists dominated the higher management positions of West German firms whereby in Eastern Europe and East Germany, the opposite, engineers and technicians, dominated. Not only were management skills lacking in East German managers, but in THA owned firms a quarter of all managers had to be kicked out due to incompetence, corruption or political taintedness.

Quality of Labour - A much more controversial potential cause of the uncompetitiveness of East German goods and services is that the work force is just not as "good" as their West German counterparts. Any discussion in this area, especially in the raw nerve atmosphere of present day Germany, is an invitation for trouble. However it should be possible to discuss what constitutes a "good" work force without coming to blows. It is only when judgmental statements such as "*Ossis* are lazy" are bandied about, that reasoned argument becomes impossible.

What then is needed from the post unification employees in East Germany? Most definitely changes in the attitudes and behaviour of members of the work force, specifically those affecting individual effectiveness. Most important here is the level of initiative¹⁰ shown to overcome barriers. Frese et al, (1996) found that only 13% of East Germans versus 35% of West Germans exhibited very high initiative at work. Their empirical investigation as to why this should be so, threw up two main factors: control and complexity. Control - Low control at work means little autonomy or job discretion which leads to a passive and helpless approach to work as the workers expect nothing

⁹ The East Germans called this policy *reproduktive Geschlossenheit* in English reproductive self-containment, (Grabher, 1994:3).

¹⁰ Personal initiative being defined as a behaviour syndrome resulting in an individual taking a self-starting approach to work and going beyond what is formally required for the job.

can be done and give up in the face of setbacks, (Frese et al, 1996:41). Complexity - Complexity of the work task tended to be low in East Germany due to the absence of modern machinery and overmanning. The higher the complexity of the job, the higher the need for intellectual flexibility, skills and creativity which facilitate the overcoming of barriers at work. Conversely, the lower the job complexity, the virtual circle just described reverses into a vicious circle ending in low initiative. So it is probably safe to generalise that the East German employee shows on average less initiative than his Western counterpart, but the good news is (according to Frese et al, 1996) that this personal attribute is a socialised one and will change over time.

Unemployment - The theme of unemployment dominated all the interviews which took place as the empirical, field portion of this research. The causes have already been discussed, but the effects on acceptance of change and integration are both subtle and also far reaching.

A common result of the rising levels of unemployment has been a growing isolation of individuals at their place of work. The former snug acceptance of all within the fold of the work group has disappeared as each looks over their shoulder to check if a colleague is not taking away some of their traditional workload and thus making them marginal in the eyes of the boss. In other words there has been a substantial movement towards individualisation and isolation at the place of work at the expense of the group solidarity. This movement has been accompanied by rising levels of tension and fear, attributes which are hardly conducive to learning new ways, developing trust with the new owners and building effective cross-discipline teams. The increased uncertainty in East Germans' lives is mirrored in this retreat into themselves as individuals (introspection) and extenuated by feelings of inadequacy in dealing with outsiders, especially West Germans. The lack of experience in dealing with people from a different culture plus the missing words, which for natives of a market economy are long ingrained and understood, often produce a feeling of fear or panic resulting in doing and saying nothing as the fail safe remedy. It is easy in such circumstances for individuals to develop a "them and me" mentality which hinders integration and learning. New managers are faced with little feed-back and sudden, unexpected outbursts of frustration leading them to draw unfavourable comparisons with workers

elsewhere. The fact that levels of unemployment have risen in West Germany alongside the exploding East German figures has not lead to any solidarity between West and East Germans rather the opposite as each blames the other for their employment woes.

The Wall in the Heads - As just mentioned unemployment has brought about a high degree of mistrust between members of the old and new Bundesländer. The feelings are even more inflamed by the massive levels of transfers placing a high taxation strain on West Germans whilst at the same time the East Germans are demanding ever more help. It may well be an uncomfortable truism that transfers *per se* can bring about a recipient, fatalistic mentality, once again a poor building block for integration and learning. It is still too early to judge whether a welfare mentality has grown up in East Germany. It should be remembered that the old DDR state did indeed try to practice cradle to grave welfare, so the expectation that the necessities of life will always be provided by someone other than oneself was already strong.

As the researcher is a non-German it should also be mentioned that in his opinion, shaped by life in the Anglo-Saxon working world, West Germany is also a country where an expectation that certain services and rights are coming from the authorities is relatively well established. Post-Thatcher Britain is an example showing that these expectations can change, although whether they should is a political question. We may assume that there seems to be some similarity in pan-German attitudes towards self-sufficiency although West Germans preach it but do not practice it and East Germans just do not practice it. This latter generalisation is based on opinion and as such carries little weight.

But what is of importance is that if the two peoples of Germany feel themselves to be different, even if they are genetically and socially quite similar, then unexpected repercussions can occur, especially when the two are forced to interact such as in a merger and acquisition (M&A). Assumed similarity which does not exist is a problem, exactly so as assumed difference. Both are problems in as far that managers and staff may be understanding completely different things from communications which leads to divergent behaviour, recriminations and lack of integration. The situation where similarity is assumed but does not exist is called the "psychic paradox" and is discussed

later in this dissertation. The relevant example of such a phenomena in this research is West German managers in East Germany, although it applies equally as well between USA and Canada or white managers and black employees in South Africa. In Germany the wall in the heads is that West German managers assume and perceive little cultural distance and therefore do not modify their management style. East German employees perceive a cultural divergence but react with passivity and do not actively seek to reduce the cultural misunderstandings. With one side not perceiving and the other not reacting, the process of acculturation is stifled before it starts.

What is proven is that the West Germans have less interest in East Germany than vice versus. In 1985, when the wall was still standing, only 64% of West Germans had visited the DDR (Köhler in Berliner Zeitung, 3.6.97). Even amongst the euphoria of reunion only one half of West Germans had visited the East by the autumn of 1990, whereas 97% of all East Germans had made it over the non-existent border. Although newspapers published in East and West Berlin are now freely available to citizens in both parts of the city, Westerners stick stubbornly to their previous titles e.g. Tagesspiegel, whereas the roughly similar Berliner Zeitung produced in the East has gained almost no western readership. The same is true in the other direction leading to a pessimistic assessment of any increase in knowledge about the lives and thoughts of no longer separated neighbours.

1.2 Themes Emerging from the Context Review

Three themes, each associated with one of the three levels of analysis (macro, meso & micro), can be observed crystallising from the context section. As is often the case with management research the themes are intertwined and not necessarily attributable solely to the given level of analysis. They are intertwined as they all contain elements of learning and flexibility so we start with a discussion of these constructs.

1.2.1 The Challenges in Learning and Flexibility

The wide ranging themes which surfaced in the context review present great challenges to East Germany and East German organisations. In order to survive and overcome the

contextual problems, a process of speedy and comprehensive learning is necessary. Learning is needed to understand and incorporate democratic structures and ideals in government. At the firm or lower levels, learning is also necessary to give the firm the flexibility necessary to flourish not flounder in fast changing, consumer lead markets. In foreign M&As, the western acquirer brings in a vast store of knowledge but this is only of use if the eastern work force and management accepts it as useful and relevant. Unfortunately the relevance of learning in west/east M&As is often seen as a one-way, eastwards street. Indeed Geppert, (1996:203) argues that even "...the language chosen for (future) communications will depend on the expected direction of the 'flow' of learning between the two partners. ...Western managers, though, may not be inclined to learn the local language, as they perceive themselves as the 'teachers' and not as the 'students'." It will be contended in this research that two-way learning is possible, indeed necessary, in such M&As. The importance of learning to changes in Eastern Europe is such that *Organizational Studies* devoted a whole special issue (No. 17, Issue 2, 1996) to this very area.

Besides challenges in learning, there are also challenges falling under the rubric of inflexibility. Inflexibility is used here to denote the inability to change quickly enough to adapt to an altered environment. Inflexibility is the arch enemy of change and integration, the subject matter of this research, and therefore its effects, particularly in conjunction with learning will be of relevance.

1.2.2 Learning & Flexibility at the macro level

Although the macro phenomenon of industrial inflexibility is beyond the scope of this research due to a chosen emphasis on the firm and group/individual, it is mentioned here for completeness but is then disregarded when gathering together themes to form the research questions. Under the banner of industrial inflexibility fall the areas of employment and competitiveness. The massive structural swings have forced non-voluntary changes onto large sections of the East German economy. The remaining employed workers will need to grasp changes in technology, techniques and customer centred attitudes to protect their jobs. The millions who have paid the price of reunion with unemployment, will need to be equipped with training in areas where the new

market forces are creating shortages in skills. Unfortunately the existing unemployment training programmes, although sizeable, have been motivated more by a political goal of reducing headline unemployment figures rather than matching training to expected future skill requirements.

1.2.3 Learning & Flexibility at the group level

A challenge which will be followed-up is that of harnessing the latent power of the work group to achieve change. The alarming climb of unemployment has produced an all-pervading fear of job loss in East German firms. Two outcomes of this are contrary forces acting upon (in)flexibility. On the one hand there has been a move towards isolation and keeping knowledge (and work) to oneself. This trend is all the more remarkable because the East German work place was an environment where the group (Brigade) not the individual was of importance. Intra-group networking, stability and communications were at levels of intensity unknown in more individualistic western firms. Should the demise of the work group be mourned? Chapter 4 discusses this question in detail but groups exert powerful social, normative forces on their members which can either hinder or support change. The challenge is therefore to keep the positive pro-change, pro-flexibility forces dormant within the work group and eliminate those forces which are barriers to change (see the second force below). The second force produced by the fear of unemployment is a tendency to revert to "the good old days". Here employees use their old group structures as armour against the changing environment. The dynamics of the group then encourage retention of old thought patterns and relationships and as such this trend hinders change.

The link between groups and learning, itself a function that can facilitate change, is that learning is embedded in a specific social context (Geppert, 1996: 252). The social context is, as just explained, the group. According to Weick, (1991), the traditional definition of learning as the combination of same stimulus - different response does not hold true. Instead of individuals giving to the same stimulus, what really happens in organisations is that groups of people give the same response to different stimuli (In: Geppert, 1996:250, this author's highlighting). East Germany's challenge is to achieve

the same response in support of change from group members, instead of splintered different responses from individuals.

In the context of foreign M&As, the groups will tend to be groups already present in the acquired eastern firm and a group representing the new management and the culture of the acquiring western firm. Must these two sets of groups pass one another by like ships in the night? According to the case studies discussed later in the dissertation, the answer can vary depending on the degree of acculturation (mixing of cultures) which occurs post-acquisition. The possible difference in cultures between East and West Germans has already been broached (section 1.1.4 - the wall in the heads). The differences when not noticed can produce a lack of convergence even in situations where the similarities would seem bound to dominate. This phenomenon, already mentioned, is called "the psychic distance paradox", (O'Grady, 1996) and is covered in chapter 5. When there is little acculturation, such as in a psychic paradox, there will likewise be little two-way learning.

1.2.4 Learning & Flexibility at the individual level

Mention has already been made of the findings of Frese et al (1996) where almost three times as many West Germans were exhibiting high levels of initiative in comparison to matched East Germans. Initiative can be fostered in a group setting but it is usually regarded as a quality to be found or not found in individuals. Initiative is important in East Germany for several reasons.

The present situation in most firms, as shown by the dramatic fall in employment, will, if continued, see even more business failures and redundancies. To break the mould, the existing company culture requires attempting to do things differently. The impetus to do this can be exogenous (usually the new western managers) or endogenous (the existing employees). So whether members of the work force are prepared to risk something new is a question of utmost importance as their future (often near future) depends on it. Doing something new almost always provokes uncertainty and Germans in particular are relatively loath to tolerate ambiguity - hence their penchant for following rules.

Further, even if someone is brave enough to try something innovative, it needs the additional step of learning from the results and acting accordingly for change to become more than a one-off occurrence. Therefore the ability of individuals to learn and take risks will affect the success of meeting this third challenge.

1.3 Conclusions and Link to Methodology

The end product of our journey through the context and challenge of German reunification is that three themes emerged, one of which was more global and therefore affects but will not become part of the research content. Meant here is the topic of macro level learning and flexibility in times of revolutionary societal change. The other two were relevant to the research title and were also associated with the strategic management subject area of fitting the firm's resources and capabilities to the aforementioned vastly changed environmental conditions.

The first of these two themes includes the constructs of groups and learning and their interaction with (in)flexibility - the (in)ability to change quickly enough to a shifted environment. The second theme likewise includes the construct of learning but this time at the individual level. Here the area of interest is the ability of the individual to learn quickly and effectively so as to counter inflexibility. Note, both these themes include common elements - learning and inflexibility in an unstable environment. Also the groups and individuals in any one firm make up the bulk of a firm's competencies and resources. To leverage these resources may provide the key to overcoming the challenges of German reunification within foreign M&As.

To fit with the changed environment as described in the context section, employees, whether as individuals or groups need to integrate, learn and adapt. Especially in foreign M&As, the potential for internal stress due to differing national and organisational cultures is high. Therefore the necessity for successful integration and removal of barriers to change is also urgent. Consequently in Chapter 2, the objectives of the research as reflected in the research problem will incorporate levels of integration, the climate necessary for adaptability/flexibility and two-way learning.

Chapter 2 - Methodology¹¹

2.1 Chapter Overview

The chapter commences with a look at the general research objectives (2.2), which turn out to be both overarching and overlapping. Once the research objectives are out in the open, it is possible to construct a general research problem (2.3) and the research questions which flow from the problem (2.4). Sandwiched between the research problems and the methodology chosen to investigate them is a section on the philosophical base of the research, 2.5. Here the competing views on how the object of the research can be measured and observed are given an airing. The researcher's view of reality, whether it is socially constructed or that there is a concrete, definitive world out there to be observed influence the methods of measurement and observation. Once the philosophical basis has been laid down, the argument then turns to reviewing the usefulness of the qualitative and quantitative research methods to achieving the research objectives, section 2.6.

2.2 General Research Objectives

Set against a backdrop of revolutionary change at all levels, described in Chapter 1, this research aims to *surface phenomena* which affect the success or failure of integrating East Germans into their new, commercially driven organisations. The assumption being that with a well integrated work force, the strategic needs of fitting the employees' competencies to the changed environment will be eased as inflexibility and barriers will be surmountable. The research concentrates on foreign, as opposed to domestic, mergers and acquisitions (M&As), as it was assumed that here the internal forces for change would be most acute. Foreign involvement introduces a major potential hindrance to integration. There could well be a difference in the power positions between the foreign acquirer and the East German acquired. A second potential brake on integration could be the *clash of cultures* between resident East German and

¹¹ Thanks and acknowledgement are due in this chapter to Karin Breu, also doing doctoral research into the East German transformation process at Oxford, Brooks University, who helped to clarify many points in the philosophy section. Mary Morgan of LSE made valuable suggestions on updating the references.

incoming foreign managers. The integration, or non-integration, is to be reviewed through the *eyes of the individual employee* and also at the level of the work group. Here the objective of the research is to examine the effect on differences in integration and acceptance of change depending on whether the change is faced individually or as a group member. It would seem obvious that *well integrated* employees are more able to accept change. Actually this tacit assumption has little grounding in academic research, but one area where there does seem to be a link between integration and acceptance of change is that of learning (Parkhe, 1991). The very existence of learning can be an expression of successful integration (Cyr & Schneider, 1996).

2.2.1 General Type of Information Needed

A closer examination of what was said about the general research objectives above has implications for the type of information needed to achieve these objectives. The following quotes were highlighted: *surface phenomena; clash of cultures; reviewed through the eyes of the individual employee; explore the ability for two-way learning to take place; well integrated*. These words point towards non-factual, personal interpretation type data, as opposed to observing, measuring, counting etc., measures which would necessitate collecting factual data. In other words it is the feelings and interpretations of interviewees which are of importance and this has important implications for the philosophical basis of the research.

2.2.2 Type of Philosophy Needed

The philosophical stance which supports best the research objectives is the subject matter of section 2.5. Even before this discussion it can be said that type of information needed from the research is investigative, which clashes with the more concrete factual information usually produced when approaching social science research from a positivist viewpoint. Additionally, as the fall of the "Iron Curtain" is a recent occurrence, there has been little time in which theories on change in transforming economies could evolve. Consequently the research will of necessity be theory forming as opposed to testing theory out.

2.3 General Research Problem

2.3.1 Overview of the Problem

The overall title of the dissertation needs to be kept in mind when constructing "the research problem". The statement of the problem, upcoming in 2.3.2, must be relevant to, and allow insight into barriers to change and integration in foreign M&As. There are several strands to the general research problem underlying this research project some of which have been mentioned in the context section of Chapter 1. The strands are in order of discussion: Societal Change, Groups & Individuals and Two-Way Learning. After a short discussion of each of these themes associated with the research problem, the themes are gathered together in a one sentence statement which incorporates feedback from the grounded research methodology. *Societal Change* - At the macro level, revolutionary changes in government, employment, openness of expression and communications had initiated a period of immense social change. These macro changes had the effect of spreading uncertainty. The ability to handle this change induced uncertainty outside the work place and its knock-on effects inside the firm are reflected in the research problem. *Groups & Individuals* - Communist society was a society of groups. Citizens were trained to feel belonging to a group, be it political, work or leisure. The emphasis on groups is grounded in Marxist theory but also allowed the state to control the group, thereby controlling individuals via group pressure, surveillance and the threat of withdrawing group privileges. The incoming western management had norms and recipes based on a more individualistic society. The clash between individualism and communitarianism forms part of the problem. *Two-Way Learning* - The third underlying strand of the research problem is that of learning, which was mainly flagged in discussions about the field work. The process of taking over a firm and merging the cultures of the acquirer and acquired is highly dependent upon the respective power positions of the two parties. The East German acquired organisations were almost always financially, technically and politically weak and therefore under the acculturation process tended to be swamped by the incoming western company culture. Although it is assumed that the East Germans will learn western ways, the adverse power position of the acquired firm makes learning in the reverse direction unlikely.

Grounded Theory Feedback - Other strands of the research problem stemmed from primary and secondary data. Here it is obvious that the *a priori* data gathered from literature and interviews influenced the research question. As a grounded theory (Glaser & Strauss, 1967) approach to the research was adopted, then patterns emerged from the data and were in turn linked back to/ and affected the research problem and research questions.

2.3.2 Statement of the Problem

The research problem can be simplified to one statement:

What were the key hindrances to integration and learning?

Naturally the research problem is embedded in the context of a western M&A in East Germany. The context includes mass unemployment, loss of markets, currency reunion etc., all the topics as discussed in Chapter 1. Management research often starts with a management problem, in this case barriers (hindrances) to change and integration. The research problem should reflect this management problem, which in this case it does, by combining change into the concept of integration. The addition of learning into the problem statement reflects the grounded nature of the research. As the research developed, patterns surfaced linking successful integration to learning.

2.4 The Research Questions:

There are two main questions one based on the process under review and the other based within the context of the firm. The first research question refers back to the research problem which in turn links to the dissertation title. The second question refers forward to possible outcomes of a successfully managed post-acquisition integration process. Note also the negative slant of the problem statement (as emphasised by the word hindrances) changes to a positive slanted investigation of how the hindrances are eased and any onwards implications.

2.4.1 Main Questions:

- *What strategic actions eased the take-over process?*
- *What were the implications for two-way learning of any actions taken?*

The unit of enquiry for the first research question is the individual or group. It is through their eyes that the strategic actions are assessed. The findings concerning this question mainly appear in chapter 4. It should be emphasised that here processes are being studied, a fact which favours the use of qualitative, as opposed to quantitative, methodology. The implications for learning, as reflected in the second question, are based inside the context of the firm and are the subject of Chapter 5.

2.4.2 Sub-Questions:

- *How was the acquiring/acquired firm perceived?*
- *How much pressure for change and integration built up?*

The unit of enquiry for these sub-questions is the firm. The findings concerning these questions mainly appear in chapter 5, where a model to measure pressure for change and integration in the firm is developed. The model includes a classification of the perception of the two parties to each other.

2.5 Research Paradigms - Philosophical Stance

2.5.1 Philosophical Link from Research Question to Methodology

The research methodology is a by-product of the choice of an underpinning philosophy for the research, such as positivist, interpretative or whatever. It is therefore critical to address at the start of the research the opinion of the researcher about the nature of the social world, i.e. which philosophical stance is to be adopted. Once this basic philosophical stance has been chosen, then it controls the nature of the information needed to examine the research questions and eventually achieve the research objective.

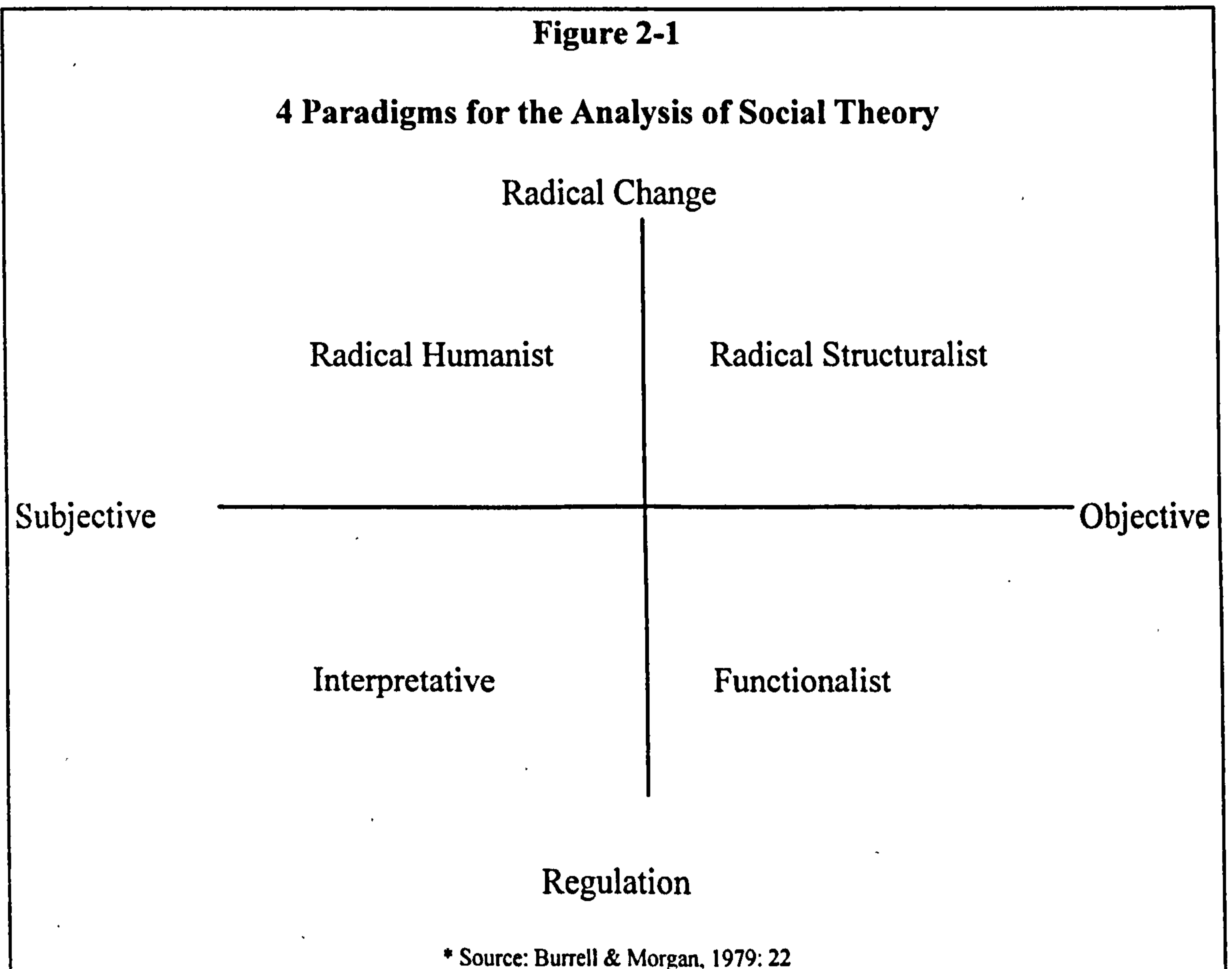
2.5.2 Paradigms

Over centuries there have been debates about how to conduct science. At any one time certain "ground rules" are accepted, internalised and obeyed by members of the scientific community. These "ground rules" or basic assumptions include an ontological element, i.e. what is the very essence of the phenomena under investigation (Burrell & Morgan, 1979:1)? Is the phenomenon external to the individual or is it the product of individual cognition? This is the ontological debate: nominalism Vs. realism. As well as an ontological element, the basic assumptions have an epistemological element, i.e. the grounds of knowledge (Ibid.: 1). Can knowledge be acquired from outside or must it be personally experienced? This is the epistemological debate: anti-positivism Vs. positivism. Dependent on the basic assumptions followed, different perspectives of the phenomena under review will follow. Thomas Kuhn (1970) wrote about the general acceptance of these basic assumptions and also their rejection, calling them paradigms and their rejection paradigm shift. Kuhn defines a paradigm as an original scientific achievement (e.g. Einstein's relativity), that gains recognition by a particular scientific community. It "... defines the legitimate problems and methods of a research field..", (Kuhn, 1970: 10). Once a particular paradigm gains credence most *normal science*, Kuhn, 1970: 25, is conducted using the assumptions embedded in it. Most *normal science* involves the application of the existing paradigm through research methods to solve problems. Often the solution to problems turns up unexpected answers, inexplicable using the existing paradigm. Examples could include Galileo or Fleming. The crisis in the inexplicability of results under the old paradigm creates new theory using a new paradigm, a process called paradigm shift.

Unfortunately the word paradigm has been high-jacked by all manner of writers and used so indiscriminately that the original meaning according to Kuhn is now just one of many attached to the word's usage. The word is used here with extreme caution and circumspection to describe certain opposing conceptual positions. A case can be made for saying that the four Burrell & Morgan paradigms which follow or indeed the whole nominalist Vs. Realist debate are not Kuhnian paradigms but philosophical stances. In so far that paradigms relate to ways of doing scientific research, it has been decided to

stick with the word, warts and all, as it is for the relevance in choosing a research methodology that the discussion of paradigms and philosophy takes place at all.

Burrell & Morgan in their 1979 book highlight four key paradigms at use in social science research, they are shown below in Figure 2-1. Although designed for sociological issues in the 1960s and 1970s, the authors stress that they can be used for the analysis of a wide range of social theories.



The paradigms of Burrell and Morgan are mutually exclusive offering alternative views of social reality, and to understand the nature of all four is to understand four different views of society. They are different forms of seeing, (Burrell & Morgan, 1979: 25).

The two uppermost paradigms in Figure 2-1 are radical, which means that they are involved in changing the social world. Radical humanists wish to overthrow the limitations of existing social arrangements using subjective means, an example would be Marcuse and the Frankfurt School. Radical structuralists also wish to overthrow

be Marcuse and the Frankfurt School. Radical structuralists also wish to overthrow contemporary social limits but believe this is best possible by attacking concrete (not subjective) structural relationships e.g. Marx's attack on the class system. These two paradigms have not been chosen for this research, surprisingly as they involve the sociology of radical change. However, the process of radical change was well under way in East Germany during the data collection and as such is a contextual "given". Of more interest to studying change/resistance to change in M&As are the functionalist or interpretative paradigms. As at the macro level societal change was under way, it is more productive to try and *explore* the micro (firm) level happenings (functionalist) or *understand* these going-ons (interpretative).

The two lower level paradigms in Figure 2-1 are now contrasted to see which suits the attainment of the research objectives and also the beliefs, interests and abilities of the researcher.

2.5.3 Functionalist Paradigm

The functionalist theorists approach their subject matter from an objective point of view. That means they are looking for rational explanations of social affairs and do so in a highly pragmatic, problem-oriented way. The functionalist paradigm is rooted in the tradition of sociological positivism or as its better known logical positivism. It uses as its tools the models and methods of natural science to study human affairs (Burrell & Morgan, 1979: 26). Logical positivism was a reaction against those of a Kantian persuasion, who believed that all scientific theories are products of the human mind and that man tries to impose his theories on nature (Alt, 1980: 7). The classical adherents of positivism sprang up in Great Britain in the late 17th and 18th centuries, e.g. Bacon, Locke, Berkeley, Hume. David Hume gave positivism its fundamental character by his insistence on the primacy of direct observation. He was following on from Gallileo's insistence on the primacy of scientific observations and measurements in the natural sciences. The mantle was taken up by the French, the most famous proponent being Auguste Comte in his book "positive philosophy" published in 1855. The effect of positivism on scientific research has been, and still is, substantial. The classic capture of data through: observations, scaling and measuring them, making empirical

generalisations and logically inducing theories flow directly from positivist thought e.g. Hume's billiard ball analogy (Alt, 1980: 8). The theory is then tested out by deduction of hypotheses which are then investigated for truth by once again capturing the data through observations.

In the mid 20th century there developed an awareness that major scientific discoveries, e.g. Einstein - relativity; Fleming - penicillin, were not the product of logical and practical applications of scientific method. Indeed according to Alt, (1980: 10), "...logical positivism will not stand a moment's serious criticism". Take the notion that science grows by an accumulation of facts. The work of Gregory (1966) in the psychology of perception has shown conclusively that visual perception is not determined simply by the stimulus pattern on the retina - the facts of the matter, as it were - but that perception involves actively searching for the best interpretation of the sensory data", i.e. also using knowledge and experience. "There is no such thing as a fact which does not require some degree of interpretation by the observer". Strong words to lead into the second paradigm to be discussed.

2.5.4 Interpretative Paradigm

The interpretative paradigm is the direct product of the German idealist tradition of social thought, (Burrell & Morgan, 1979: 31). Already mentioned above was the functionalist paradigm's emergence as a reaction to Kantian ideas. The work of Kant was the foundations for the interpretative paradigm with its emphasis on the spiritual nature of the social world (Burrell & Morgan, 1979: 10). Kant's work developed at the turn of the twentieth century beyond its here-to influence on the "romantic" literature and art of the mid-18th century. Major contributions by theorists such as Dilthey, Weber, Husserl and Schütz extended its interpretative nature to become a framework for social analysis.

So the interpretative paradigm views the social world as having a spiritual nature, but what does it really encompass? Three streams of thought are usually referred to as the central foundations of the interpretative paradigm: Hermeneutics, phenomenology and ordinary language philosophy, (Giddens, 1976: 23).

Hermeneutics is the science and methodology of interpretation, especially the Bible (Webster's II Dictionary, 1988). Texts contain subjective meanings exactly like humans. Just as the printed word of text can be studied to release the subjective meaning it holds, so also can human behaviour be interpreted and understood (*verstehen*), (Giddens, 1976: 23). The period at the turn of the twentieth century also saw the contrast between natural and social sciences become more focused. Dilthey championed hermeneutics as a general methodology for the social sciences, emphasising understanding as the driving principle as opposed to the explaining (*erklaren*) principle of the natural sciences.

Phenomenology is associated with Husserl, (1905) and is defined as: "the study of human awareness in which considerations of objective reality and purely subjective response are temporarily left out of account", (Webster's II, 1988). It was left to Husserl's protégé at Freiburg, Alfred Schütz, to emphasise the use of phenomenology to social research. He noted that in order to penetrate to the essence of things, the researcher must question and suspend taught notions, assumptions and theories about the world, (Giddens, 1976: 25). The researcher must go back to basics which precede understanding by having an open but alert, not pre-programmed mind and research attitude. No small task for the researcher!

The ordinary language school founded by Wittgenstein the latter, is based on language becoming the basis of cracking philosophical problems. Language is a form of life and both life and language take for granted assumptions which need to be understood within a specific social context. Hence knowledge coming out of social science enquiry is not value free or objective, it is socially constructed and socially sustained, (Burrell & Morgan, 1979: 255).

The above three streams of thought help make up the interpretative paradigm, (Wilson, 1970). Hence the task of the social scientist should not be to gather facts and measure patterns, rather to appreciate the different constructions and meanings people place on their experience. Human actions arise from the sense that people make of different situations. Therefore social research should investigate through the adoption of a

research methodology, that is capable of capturing the real world, i.e. real peoples' given meaning of social phenomena.

2.5.5 Modernist Vs. Postmodernist

The functionalist Vs. nominalist debate stemmed from the 1960s and 1970s and as such is somewhat dated. The philosophical debate has moved on now to a discussion of modernism Vs. postmodernism. The participants and concepts have a lot of commonality. Gibson Burrell, oft quoted above in Burrell & Morgan, (1979), introduced the concepts of modernism and postmodernism into organisational analysis from the area of the arts (Cooper & Burrell, 1988).

In the modernist model, organisations are viewed as a social tool and an extension of human rationality. In the postmodern view, organisations are less an extension of planned thought and calculated action and more a defensive reaction to forces intrinsic to the social body, which constantly threaten the stability of organised life.

The link from the functionalists to modernism is that of rationality. The link draws on Max Weber's concept of the *iron cage* of modern economic order, where all non-rational processes are sacrificed in favour of organisations whose purpose is a process of embellishing rationalisation and objectification of social life (Cooper & Burrell, 1988: 92). Modernism assumes a universal foundation that the world is logical and meaningful and controlled by reason.

Postmodernism is more akin to the nominalist standpoint. The idea that we are subject to forces beyond us is repugnant to postmodern thought. The world is basically self-referential, it is neither pro human nor anti human, it just is. Postmodernism therefore decentres the human agent from its self-elevated position of narcissistic "rationality" and shows it to be essentially an observer-community which constructs *interpretations* of the world, these interpretations having no absolute or universal status, (Cooper & Burrell, 1988: 94). Postmodernism has taken up the mantle of an interpretational view of social research.

2.6 Methodology for Social Science Research

In the two previous sections the differing and mutually exclusive paradigms of functionalism (positivist) and interpretativism (anti-positivist) were examined. The former views the social world as being "objective", the latter as being "subjective". Each tends to be associated with a particular methodology. Positivism with quantitative and interpretivism with qualitative research methods. Research methodology being ".. a system of explicit rules and procedures on which research is based and against which claims for knowledge are evaluated", (Frankfort-Nachmais, 1992: 14).

2.6.1 Quantitative Research

So what does all the philosophy in 2.5 mean for the research in this dissertation? The rationale for plumping for either a quantitative or qualitative design can be explained philosophically by answers to the choices in Table 2-1.

Positivist		Interpretative
Researcher is independent	vs.	Researcher is involved
Testing theories	vs.	Generating theories

* Source: Easterby-Smith et al, 1991

Quantitative research methodology tend to be the logical fall out from adopting a positivist paradigm. As positivists view the world as containing external facts, so they use the classic hypothesis deduction method of research to test out hypotheses to confirm/refute them and hence the underlying theory. The techniques of the natural sciences are most useful here as the emphasis is on the "nature type" laws in the social world which require the surfacing of causal relationships between social phenomena, i.e. data which can be measured by identifying variables and statistically analysed for generalisability. Observations are used here to *deduce* linkages to confirm or refute a theory. In order to achieve the (non) confirmation of a theory then the data gathered

must be trustworthy. Trustworthy data are data which exhibit validity, reliability and generalisability and which can be examined against the canons of soundness which according to Marshall & Rossman, 1989: 145 are applicable by using four questions.

(1) How truthful are the particular findings of the study? By what criteria can we judge them? The first double question measures the *internal validity* of a data set. The term internal validity was first introduced by Campbell & Stanley, (1963) and expanded by Cook and Campbell, (1979).

External validity refers to the generalisability of findings across or to target populations, settings, times, etc. The canon question here is:

(2) How applicable are these findings to another setting or group of people? The term *generalisable to* concerns the validity of generalisability of samples to populations of which the samples are presumably representative, e.g. does a 10% sample of miners represent all miners? On the other hand *generalising across populations* concerns results obtained from a given population being generalised to **other** populations, e.g. using results from female workers for male workers as well.

The *reliability* of findings can be expressed by answering the following question:

(3) How can we be reasonably sure that the findings would be replicated if the study was conducted with the same participants in the same context? There are at least four reasons why results may be unreliable. They split between subject and object and between error and bias, i.e. between the people being researched and the researcher.

The fourth canon question relates to the *objectivity* of the results.

(4) How can we be reasonably sure that the findings are reflective of the subjects and the inquiry itself, rather than the product of the researcher's biases and prejudices?

Some authors, e.g. Kirk & Miller (1986) view objectivity as the simultaneous realisation of as much reliability and validity as possible.

In summary, the results of the first three questions, when applied, give an indication of trustworthiness, a concept made up of reliability, validity and generalisability, (Robson,

1993: 66). This means - are the results of the enquiry worth taking account of, and are they believable?

One question in Table 2-1 was whether the research's objective is the testing out of theories or the generation of theories? As noted in section 2.1, the contemporary nature of the fall of the iron curtain means that a body of theory has not surfaced concerning change and its (non) acceptance in the changeover from command to market economy. Little theory exists to be tested out but there is a large deficit in producing theory. This does not mean that existing Western theory is irrelevant and cannot be tested out in transforming Central & Eastern European economies. However, it is debatable whether the basic understanding of the workings of the market system, that we in the West take for granted, is deeply engrained enough in the Eastern collective psyche for the theories to be tested out. The concept of marketing, for instance, is now taught throughout East Germany. However, practitioners relate that it is regarded as what appears in textbooks, i.e. academic, and the relevance to current conditions has not been assimilated.

The second question in Table 2-1 concerned the independence or involvement of the researcher including any relevant personal beliefs, interests and abilities. The background of the researcher is a long career in general management and a social science, as opposed to natural science, educational specialisation. This history has helped shape the personal belief that it is the person (or persons in groups) who are critical to achieving business transformation. It is difficult to remain independent of the people who are the subject matter of the research. It is also undesirable if one wishes to gain access to their more deeply held values and beliefs. These tend to be regarded as private and only shared when a researcher has built up a level of empathy, involvement and trust. The possibility for researcher bias is therefore present and duly flagged.

2.6.2 Qualitative Research

Qualitative methodology usually involves the *inductively* going from empirical to the theoretical level. It also expects the subjects to be able to think about and express their feelings and beliefs, they are not just objects to be examined. Some of the various qualitative techniques associated with interviews are shown below in Table 2-2, which

links them to the different depth of information attempted to be extracted from individuals. Qualitative research techniques vary on a continuum from those nearest quantitative (merely exploring type research) to theory building, a very qualitative activity.

Table 2-2
Responses to Interviews

Accessibility to respondents		Layers of response from respondents	Examples of Techniques
P U B L I C	C O M M U N I C A B L E	A W A R E	Spontaneous reasoned conventional Highly structured questionnaires e.g. telephone surveys
			Concealed personal Questionnaires with an amount of open ended questions to allow probing e.g. face to face surveys
P R I V A T E	N O N C O M M U N I C A T A B L E		Semi structured to unstructured interviews on an individual or group basis e.g. focus group interviews
		U N A W A R E	Intuitive Imaginative Unstructured interviews and observations both quantitative and qualitative e.g. naturalistic approaches on a one-to-one basis, collaborative inquiry

* Source, University of Bath Research Methods Course, 1995

Qualitative methodology usually involves small sample sizes as it is time consuming and expensive to obtain in-depth data on the underlying beliefs of individuals.

Returning to the criteria of soundness or trustworthiness and given small sample size,

how trustworthy will any results be? This question can be answered by acknowledging that a small number of interviews (say 36 maximum) might never be generalisable (externally valid) to all eight million East Germans. That bald statement is actually true statistically. However it is a quantitative statement which contains a difficulty for a qualitative study. The difficulty is letting go of the goal of wanting to generalise to the nth. degree. When the positivist goal of maximum generalisability is thrown out and replaced by a more modest phenomenological goal of showing the linkage between the original theoretical framework and the data collected and its analysis, then small sample sized qualitative studies can be externally valid or more accurately, transferable.

The use of the term **transferable** as a replacement for external validity or generalising across was suggested by Lincoln & Guba (1985). Indeed they sought to stress the difference between positivism and phenomenology by giving all the constructs of soundness different names. The new names and their altered meanings are set out in Marshall & Rossman (1989) on which this section is based.

Lincoln & Guba renamed internal validity (or generalising to) as **credibility** under the qualitative paradigm. The goal under credibility is to demonstrate that the inquiry was conducted in such a manner as to ensure that the subject was accurately identified and described i.e. has the researcher gained full access to the knowledge and meaning of the informants? Using this definition of credibility, it seems possible to justify the small sample size and in-depth interview methodology.

The concept of reliability is a positivist notion which assumes an unchanging universe, where inquiry can be logically replicated. However, qualitative thinking assumes the complete opposite, that the social world is always changing, thus hindering replication. Lincoln & Guba, (1985) suggest the term **dependability** for qualitative reliability. Here the researcher attempts to integrate changing conditions into the study and refines the design continuously as understanding increases. Now the question can be posed as 'will similar observations or meanings be made by different observers or interviewers on different occasions? Given this definition of dependability it should be possible to classify the actual field work as dependable. Each in-depth interview led to the

refinement of questions to be posed in the next and subsequent interviews. However will similar meanings be made on any subsequent replication?

Here the qualitative viewpoint brings up the final Lincoln & Guba construct of **confirmability** which replaces logical objectivity. Objectivity of findings is dependent on being reflective of the subjects and the inquiry itself, rather than the product of the researcher's biases and prejudices, compare with the Kirk and Miller definition quoted earlier. However under phenomenology, as already stated, objective observation is impossible and understanding is derived from experience. Here the effect of a researcher's presence on the setting is as inevitable as it is hard to gauge (researcher and subject bias). To allow for this inescapable bias is the goal of correct conformability and needs a thorough understanding of the researcher's own personality and background. The subject matter of this researcher's potential biases, beliefs, interests and abilities has been addressed above in the quantitative section, further attention will be given in section 4.4.5 entitled " researcher and subject bias".

2.6.3 Choosing between Quantitative and Qualitative Methodology

An involved researcher knows that he affects the research and is indeed part of it. Without being involved it is difficult to give weight to the view of reality imparted by the subject. The sample size and numbers involved are small, giving weight to a qualitative approach. Additionally, the nature of the subject matter itself (differing perceptions) is mainly non-quantitative, leading again towards qualitative research.

Instead of converging *deductively* on a neutral view of reality, interpretative based research, *induces* alternate theories and models from the observed patterns. These alternative theories and models can be classified as claims to the truth. It is the originality and explanatory power of a truth claim, that is a form of expression and is a relationship with a larger public that produce value in a scientific community, (Lindlof, 1994: 250).

To make the research manageable and to delve deeper into the possible causes of acceptance/non-acceptance of change, limitations have to be built in. These limitations are what delineate qualitative research from quantitative and are:

- The results will not be generalisable to East Germany as a nation, but will allow future researchers to transfer the issues and research methods to another setting. Transferability instead of generalisability, (Lincoln & Guba, 1985; Marshall & Rossman, 1989).
- The results will have credibility only in as far as they are an accurate description and identification of the issues. Credibility instead of validity, (Lincoln & Guba, 1985; Marshall & Rossman, 1989).
- The results will be dependable only in as far as similar meaning will be found at a different time. Dependability instead of reliability, (Lincoln & Guba, 1985; Marshall & Rossman, 1989).

In summary then an interpretative paradigm governs this research facilitating the choice of qualitative methodology to gain the below the surface level personal data necessary to satisfy the accomplishment of the research objectives. To quote Clifford Geertz (1973) *"The concept of culture I espouse... is essentially a semiotic one. Believing with Max Weber, that man is an animal suspended in webs of significance he has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental science in search of law but an interpretative one in search of meaning"*. The selection of a research design which will facilitate this interpretative process of finding meaning is explained in the data chapters 4 & 5. The differing goals and units of analysis of chapters 4 & 5 mean that there are of necessity differences in the type of data collection required and hence the separate discussion of the research design.

2.6.4 Pilot Study

A pilot study took place with such promising results that the data gathered has been incorporated in the general data discussed in chapters 4 & 5.

The selection of, and approach to, a target company was an extremely fortuitous and unplanned exercise. A guest lecturer at the business school, who was the managing director of a food processing company, was approached as he mentioned in his lecture that the firm, Dalgety PLC had opened up a new subsidiary in East Germany. The outcome was a series of three in-depth interviews at the German headquarters of Deutsche PIG GmbH, a subsidiary of Dalgety PLC. The company's business is breeding pigs, both hogs and sows, and by selectively pairing plus genetic engineering increasing the meat yield. Although small in size the company had hired new workers from East Germany after the fall of the Berlin Wall. The three interviews were split between the West German deputy CEO and two East German 'successes'. Successes are classified here as those that did not leave, both voluntarily or involuntarily, like 60% of the other hired East Germans.

This study was useful in testing out interview procedures (use of tape recorder, % of time on social niceties etc.) and refining questions. The questions asked were open ended and each unexpected answer was incorporated into a new question at the next interview. The outcome was a confirmation that there was some mileage in the research issues especially in the area of individual Vs. group, and, as would be expected under grounded theory (Glaser & Strauss, 1967), allowed new areas of potential fertile material to surface. Additionally, the results were included into the main primary data as already stated.

2.7 Conclusions and Onward Links

In summary, the research methodology is bedded in postmodernism and the interpretive paradigm, which encourages the use of qualitative research methods. The dissertation continues with a general review of literature (Chapter 3), followed by the two field data chapters, where the qualitative research methods necessary for the divergent chapter themes are selected and employed at six East German M&As.

Chapter 3 - General Literature Review

3.1 Chapter Overview

Like most other PhD dissertations, this research was preceded by a substantial phase of reading around, and into, the subject. This rather short general literature review reflects the areas explored in the literature at that early stage. Specific literature reviews which deal in more depth with the subject matters under exploration are included in each of the two data chapters, (Chapters 4 & 5). The idea being to have the most relevant literature fresh in mind and in close proximity to where it is most needed. Additionally this allows the data chapters to be structured like journal articles and they can be read by the reader in a hurry without having to first cover this chapter.

The layout of this chapter then reflects the progression of introductory reading around each of the critical points of the objectives of the research. As is stressed throughout the whole dissertation, the overarching theoretical slant of this research is strategic management. The chapter opens therefore with an overview of strategic management literature germane to the main areas of the research objectives, integration and learning. Here the usefulness of the resource Based View of the Firm is raised for the first time. It is the human resources inherited with the acquired East German firms who can feel integrated and learn new technologies and commercial thinking. A direct link to the Resource Based View is then obvious. Literature and theory in the fields of change management and Mergers and Acquisitions (M&As) is introduced, but the main discussion of the relevance of these theories is saved for the specific literature section of Chapter 5. The importance of the topic of learning to successful integration became obvious only at the end of the data collection. The review of literature on learning is located therefore totally within Chapter 5.

Research in management cannot be easily pigeon holed into one or other school of thought. Likewise this research spills over from the Strategic Management field into Organisational Behaviour. Consequently as a lead-in to the more specific Organisational Behaviour theories, a historical walk through general Organisational

Theories is attempted in order to set the macro-level theory scene within which the researched M&As operated.

Field research in East Germany by a British researcher based in West Germany brings up interesting issues concerning cross-cultural research. The overriding work in this section is that of Geert Hofstede, whose concept of cultural cluster dimensions is introduced. Detailed discussion of Hofstede's findings and their relevance to East German research are saved for the data chapters.

Research on East German culture is not well developed, see Appendix 1 for a substantive listing of pre and post unification work. Therefore differences between Anglo-American and German culture are examined to gain some approximation of East Germany by using West Germany as a surrogate. There are dangers here of assuming cultural similarity which does not exist between the two parts of united Germany. By way of introducing East Germany and closeness or distance from West German culture, a look at the nurture Vs. nature debate sets the scene. If "nurture" is in ascendancy, then East Germany will have a different learned culture from West Germany due to forty years separation. On the other hand, if "nature" is more prevalent than the deep-freezer effect will be at work. The deep-freeze theory is that the genetically similar East Germans will burst back into the market economy exhibiting all the inherited pan-Germanic characteristics which equip West Germans so well. The general literature review closes with a brief look at some of the German language material on East German transformation.

3.2 Strategic Management Literature

The question "what is strategy?" seems like a simple to answer challenge but surprisingly there are conflicting schools of thought in this field (for a sample of the different schools, see Mintzberg, 1990; Schoemaker, 1993 and Whittington, 1993). One underlying, basic idea is that strategy is how to move an organisation from where it is now to where the management want it to be in the future. Most people assume that strategy involves well laid out plans to achieve the future goals, but in fact often what happens is just the result of reacting to the environment i.e. emergent strategies

(Mintzberg and Waters, 1985). In addition to including the ambition of reaching a different future, most definitions of strategy contain three elements: process, content, context (De Wit & Meyer, 1994). Each of these three elements can be viewed from an internal (firm specific) or external (environmental) objective.

It is therefore proposed in this section to review the strategic management literature using the three element of process, content and context, exposing each to internal and external influences. As the field of strategic management literature is extremely comprehensive, the review concentrates on those sections which are relevant to international expansion via M&As and specifically to the strategic implications of barriers to change and integration which occur in such expansions in East Germany.

i. Strategy as a *process* views the world of strategy as processes or techniques to be applied. The best known process is the SWOT analysis (strengths, weaknesses, opportunities and threats). Externally SWOT can be used to gauge the opportunities and threats in the environment facing the firm, especially the competitive situation within the industry e.g. Porter's five forces, Porter, (1979). Additionally firms operating in various markets with differing products and subsidiaries can use portfolio analysis associated with the Boston Consulting Group (Hofer & Schendel, 1978) to pick winners for the future. It is interesting to note here that the field interviews failed to show any usage of the above techniques by the six firms investigated before they entered East Germany. This lack of pre-consideration supports the existence of an emergent strategy which was mainly based on logical incrementalism (Quinn, 1978), i.e. test the new market out a bit and make changes to survive, rather than following deliberate, pre-planned strategies.

Internally SWOT, or the strengths and weaknesses part of it, can be used to assess the core competencies of the organisation (Hamel & Prahalad, 1990). Hamel and Prahalad define core competencies as the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technology. It is interesting that learning is an important part of this definition of core competencies, the link to the theme of Chapter 5 is therefore obvious and relevant.

ii. Strategy as a *content* means the output of the strategic process - the intended or realised course of action selected to achieve the company's long term objectives (De Wit & Meyer, 1994: 213). Once again the external or internal viewpoints can be useful in approaching strategy content. The external view of strategy content is often linked to the idea of a positioning approach (Mintzberg, 1990) or outside-in approach. Here the management should try to fit (position) their strategy to what is going on in the market place, i.e. their environment. What was going on in the East German market place at the time of the research was revolutionary change which showed itself in disappearing demand and the rise of competition both international and domestic. Internally the content of the strategy process could include the nurturing of the core competencies identified by the SWOT process. Specifically, we are talking about the core competencies of the western take-over firm - perhaps in marketing, financial or technical areas - and also those of the East German organisation. It is the identification, valuation and development of the existing East German capabilities which form the basis of the research's main argument. Many of the M&As which were examined took scant notice of the talents they were inheriting. It is our contention that there existed talents and capabilities which when properly harnessed to the M&A's new vision could produce an excellent basis for future success.

iii. All strategy takes place inside a *context*. The external context (the environment) in East Germany was not controlled but chaotic, another reason why incrementalism not planning was mostly in evidence. In the context area there are several school of strategy vying for attention to be used to explain what happens to a business.

Institutional Theory as a test of how firms become isomorphic with their environment, in the case of this research mimetic isomorphism (their response to uncertainty).

According to Pennings, (1996) there are two strands to institutional theory:

- a. Organisations mirror societal conventions, traditions and values. Leading advocates being Tolbert & Zucker, (1983) and Hofstede, (1991).
- b. Organisations copy each other and move towards some norm, DiMaggio & Powell, (1992).

In the case of East German privatisations these two strands are both at play. In the first strand society does not change overnight and well established communist conventions hang on, in the heads if not in the structures. Pulling against this force is the underlying, German as opposed to East German culture. Has 40 yr. enforced isolation made East Germans values and norms different to West German ones? As will be discussed later in chapter 3, according to Schneider (1991) there are two views, East Germany as a *deep freeze* - they immediately resume their pre communist German culture on thawing out in a capitalist system, or *nurture* whereby social experience (even the impoverished communist one) shapes people as much as hereditary.

In most of the firms visited, the western purchaser has tried to emphasise the second strand of institutional theory, namely structure is the result of mimicking and enforcement. However when the copying and mimicking has been solely a one-way process, there is a prognosis about a resultant demotivating effect on the East German workforce who wanted their input to be recognised. The effect therefore of institutional theory is mixed. On the one hand West-East movements of knowledge are helped by copying and mimicking. More controversially, the research will posit that two-way learning, i.e. also East-West, is hindered by one-way institutionalisation.

Agency Theory (Jenson & Meckling, 1976; Fama, 1980) seems to offer some application in this research. There were some cases where the Treuhand kept some residual stock in the privatised firms and there were resultant agency problems as the new western owners and the Treuhand had different goals, e.g. cost reduction vs. job retention, see the case on Company F at 5.5.2. In the case of Acerplan at 5.5.1, the East German management purchased some of the equity of the M&A and this had an excellent effect in reducing potential agency problems.

Population Ecology (Lomi, 1996). There would seem to be interesting research projects in ex-communist countries to test out the theory that firms die when they cannot adapt to changes in their environment. In East Germany it is relevant to note the artificial influence of the German government which, by massive subsidies (1 trillion DM in 6

years), has at least temporarily interrupted the normal evolutionary process. Once again however research in this area is outside the scope of the dissertation.

Globalisation (Levitt, 1983). The Uruguay Round of world wide tariff reductions, the growth of regional trading blocks and impressive technical advances in communications and logistics mean that very few markets are free of influence from the consequences of globalisation. In East Germany these consequences include the presence of low wage competition in the near eastern neighbour countries, e.g. Poland, Czech Republic, Hungary etc., and the servicing of East Germany from the excess capacity available in the old Bundesländer.

As far as the internal context is concerned, the anti-Porter views of Stopford and Baden-Fuller, 1992, that the firm matters, not the industry are the theoretical starting point for the research. That the firm matters can be explained by the resource based view of the firm.

Resource based View of the Firm (Penrose, 1968; Wernerfelt, 1984; Connor, 1991) sees the firm as a bundle of resources and capabilities. This school has definite applications to the research in hand. Namely it is the researcher's contention that by disregarding the existing resources (skills and contacts) of the East German acquisition, then some new owners have both missed an opportunity to leverage their purchased assets and also created a barrier to further integration of the new subsidiary.

3.2.1 Change Management Literature

The area of change management is one of the more developed topic areas discussed in this chapter, with regard to theory. Before launching into a review of the various theories, an explanation of the relevance of change management to the research may be worthwhile.

The newly acquired East German subsidiaries *had* to change quickly or cease to exist. The reasons are well known but are listed for completeness:

- Sudden arrival of competition from the West.
- Decision to scrap public ownership in favour of private.
- Currency reform at DM 1 = Ost Mark 1 (the Ost Mark was the 'funny' money of the DDR).
- Marketing not plan fulfilment became critical.
- Collapse of the former export markets of COMECON.
- Outdated and worn-out equipment.
- Overmanning as seen with jobs for life and no unemployment.
- Concepts about the importance service or quality were unknown.

With the disappearance of the inner German border, all East German consumers were able to, and indeed did, fulfil their needs through purchases from western firms.

Without a swift and revolutionary change to efficient performance and a market dictated output, then the whole of East German industry could easily have disappeared. The need for quick change was thus omnipresent, unfortunately this seems not to have eased the transition.

How then did existing theories of change stand up to the fall of communism? It needs saying right up front that the literature and theories of change management have all been developed in the western, capitalist world. This ethnocentricity of thought may be a weakness as theory was developed using a mindset, and assuming a mindset, fundamentally different from that which had emerged under communism. The theme of western dominated theory is discussed and further developed under the cross-cultural research heading (3.4) of this methodology chapter.

Many of the views expressed in the change management theories seem at first glance to be divergent, indeed Gersick, (1991) argues that underpinning heterogeneous paradigms cause such diversity. However some commonality exists. Firstly many of the theories are known by their countervailing extremes: Evolutionary or revolutionary, inertia or stress, top-down or bottom-up, imposed or negotiated etc. That the theories highlight extremes on a spectrum introduces the second commonality, that a tension exists

between the extremities. Indeed it is this tension which, if properly exploited, can form the basis of acceptance of change.

The first continuum of change pressure to be examined is whether change slowly *evolves* (Grinyer & Spender, 1979; Miller & Friesen, 1980, Nelson & Winter, 1982), or *explodes* onto the scene as a revolutionary transformation via catastrophe theory (Bigelow, 1982). According to Grinyer & McKiernan, (1990) the 'slow change' models (Clarke & Stanley, 1988) have as parents Cyert & March's (1963) seminal work on the behavioural theory of the firm, which itself incorporated detailed thought on bureaucracies from Max Weber, (1924). Bureaucracies are damned as being unable to adapt to a changing environment because of historically determined structures and power distribution. The belittling of bureaucracies is somewhat unfair because in stable, mature markets, mechanistic (Burns & Stalker, 1961) or machine (Mintzberg, 1983) bureaucracies can operate efficiently. Not only inherent structures and power distribution exert pressure to remain with the status quo, there has usually been a substantial investment in human and financial capital, as would be expected from the resource based view of the firm, (Penrose, 1959), which is unlikely to be easily sacrificed. The pressure for change, often visible in the relative decline of the firm, is present to some extent in all organisations (Slatter, 1984: 61). Some firms are *proactive* and by a series of complementary, sequential small changes or logical incrementalism, (Quinn, 1978) are able to avoid a full blown crisis. Other firms wait too long and thus have to be *reactive* to the crisis when it arrives.

A second body of change management literature which also very visibly incorporates the idea of pressure between extremes is the interaction of stress and inertia (Huff, Huff & Thomas, 1992). Inertia encompasses personal commitments, financial investments and institutional mechanisms supporting the current way of doing things. Stress arises between a mismatch between the demands/opportunities facing the organisation and current strategies. The environment may change through new methods (Van der Ven, 1986), new entrants (Porter, 1980) or new employees (Clark, 1970). All lead to dissatisfaction with the misplaced current strategy, i.e. stress (Chandler, 1962).

3.2.2 Mergers & Acquisitions Literature

The issue of mergers & acquisitions can be viewed from a macro (national) or micro (employee) position. The idea that West Germany has bought out East Germany and imposed the culture of the winner on the loser is prevalent not just in East Germany. The long term effects of this perception, regardless of if its actually true or not, may well be future social and political unrest. However the macro level falls outside the scope of this research, although the perceptions and emotions are present in the workplace of East German M&As.

The literature on mergers and acquisitions, hereafter M&As, splits into two groupings. The somewhat more researched and established part concentrates on reasons for the choice of a M&A partner. Most of this research has focused on the strategic or financial fit (Blake & Moulton, 1984, Chatterjee, 1986, Lubatkin, 1987). The fit or synergy was only viewed in a non-dynamic way, usually by examining the position prior to M&A. Jamison & Sitkin, (1986) expanded this view to see it as a process over time, including the period of negotiating the M&A.

The second, less researched area in the literature looks at the post M&A time period. Indeed Mirvis & Sales, 1984 saw this as a process in their longitudinal (3 yr.) study of a merger. As East German subsidiaries were researched, which had some time previously gone through the negotiating phase, then the second body of literature is more relevant. There are several post merger activities which have been researched: human resource management (Canella & Hambrick, 1993), management systems or tasks (Shrallow, 1985; Schweiger & Walsh, 1990). The divergent cultures of a capitalist, foreign, mainly Anglo-American acquiring company versus the communist, East German acquired company exposes cross-cultural interactions in the post merger phase, both between different nationalities and firm cultures. The cultural interaction theme is currently receiving much attention but the existing literature (Mirvis & Sales, 1984, Walter, 1985, Shrivastava, 1986, Nahavandi & Malekzadeh, 1988, Chatterjee, Lubatkin, Schweiger & Weber, 1992) is not encyclopaedic. The interaction or intermingling of two cultures is called *acculturation*, a term borrowed from anthropology (Berry, 1980) and is discussed in depth in Chapter 5.

3.3 Organisational Theory Literature

The literature on organisations can be divided into four schools each occupying a quadrant of Figure 3-1 (Luthans, 1992). Two of the variables under discussion, individuals and groups, were researched within the setting of the firm. It can be seen that given the research concentration on individual firms within a research aim of theorising from emerging patterns, then the resultant findings will tend to be relevant to organisational behaviour, the top right segment of Figure 3-1. The applied schools within the OD and P/HR areas are not discussed as they tend to be prescriptive and this research is investigative.

However it would be counterproductive to review only organisational behaviour literature, and that in a vacuum, and therefore a historical summary of the six main schools in organisational theory precedes the more micro level works. The aim is not to cover each school in detail but to bring out points relevant to a study of groups and individuals embedded in the various schools.

Figure 3-1

Schools of thought in the study of organisations

	Macro	Micro
Theoretical	OT (Organisational Theory)	OB (Organisational Behaviour)
Applied	OD (Organisational Development)	P/HR (Personnel and Human Resources)
	Society	Firm

* Luthans (1992, pp. 8)

According to Shafritz and Ott (1987) organisation theory schools of thought can best be summarised using a historical approach, however there are countless other ways of

classifying writers into schools e.g. Astley & Van de Ven (1983) use level of analysis and deterministic or voluntaristic assumptions. The chosen schools are shown below in Table 3-1.

Table 3-1

Six Schools of Organisational Theory

1. The classical school - Fayol (1916), Weber (1922), Follet (1926), Mayo (1933), Barnard (1938).
2. The neo-classical school - Maslow (1943); Simon (1946), Selznick (1949), Lewin (1951), Parsons (1956)
3. The 'modern' structural school - Burns & Stalker (1961), Lawrence & Lorsch (1969)
4. The systems and contingency school - Katz & Kahn (1966), Thompson (1967), Galbraith (1973)
5. The power and politics school - Pfeffer (1981), Mintzberg (1983)
6. The organisational culture school - Schein (1985), Peters & Waterman (1982)

* Adapted from Shafritz & Ott (1987)

Preceding the six chosen schools were the famous works of Adam Smith (1776) and Frederick Taylor (1911). These founding fathers of respectively economics and management are relevant to the discussion because of the attention they paid to specialisation. Smith's brilliant description of the benefits of the division of labour using an example of pin manufacturing was extended by Taylor to research the one best way of accomplishing any given task. The thrust of both men's specialisation arguments was to break jobs down into their basic constituents i.e. those tasks performed by the individual workers. So we find, even before the dawn of organisational theory, an intellectual basis for organising production on the basis of the contribution of individuals.

Now it is immediately obvious that many individuals doing their own thing, no matter what their motivation, will not achieve strategic goals and effective output levels without some form of co-ordination, or as it came to be known, of management. Henri Fayol published the first complete theory of management in 1916 although its late translation into English (1949) means that its importance was not immediately obvious. Fayol involved himself with the task of developing universal principles which could be applied to even large organisations where the co-ordination of individuals was difficult. His final, and for Fayol most interesting, principle was that of the *esprit de corps*.

'Union is strength' was his dictum. 'Efforts should be made to establish it' was his advice and 'personnel should not be split up'. These views place Fayol firmly at the front of a growing interest in the combination of individuals into groups or teams. Weber (1922) described the co-ordination and control of individuals as being handled by a bureaucracy, where there is a firmly ordered system of super- and subordination in which there is supervision of the lower offices by higher ones. Weber's concept of bureaucratic authority is relevant to any discussion of groups and individuals but was extended by Follet (1926) to distinguish between authority or 'power with' from 'power over' i.e. any authority is assigned from underneath by acceptance of personality rather than ascribed' bureaucratic position authority. Starting in 1924 and lasting until 1932 the Hawthorne Studies at the Western Electric Company in Chicago took place. Writing in 1933 Elton Mayo used the studies to emphasise for the first time the human element in management and documented interesting results on group performance during and even after experiments with lighting conditions. Chester Barnard (1938) introduced the concept of communications in organisations and linked communications (meaning and understanding) to authority.

The neo-classical school of organisation theory was born between the two world wars and criticised the classical theories as being too theoretical and not based on a scientific study of what happened at the workplace. The prime example being Herbert Simon (1946) who cautioned against the blind application of management rules (e.g. Fayol). Every decision in management should be weighed up to see if it contributed to maximising efficiency, not applied because it was the accepted recipe. Selznick (1949) is of interest in that his work involved the individual in the organisation. He noted that organisations consist of individuals whose goals and aspirations might not necessarily coincide with those of the organisation. Kurt Lewin (1951) besides being famous for the force field theory of change also did some path breaking work on the achievement of change through the use of group pressure to achieve group norms. His research on getting new mothers in the rural South of the USA to accept natural stilling methods instead of using manufactured powder milk for their babies is a classic in highlighting the advantages of group, as opposed to individual, counselling as a means of changing long standing habits. One can summarise his message as the whole is greater than the sum of the parts. Talcott Parsons (1956) expounded a sociological view of

organisations, and sociology being the study of groups his views can be used for the interpretation of group activities in the organisation.

The 'modern' structural school has at its core the idea that there is one 'best' structure for a rational organisation. This 'best' structure was shown to depend upon the environment by Burns & Stalker (1961). If the environment was stable then a mechanistic structure would probably suffice. A mechanistic structure included traditional hierarchy and rules and regulations. However if the environment was fast changing then an organic form of organisation was probably more apt. An organic form would entail less rigidity and more participation. The economic situation in East Germany changed rapidly in 1989 from stable to unstable, thus Burns & Stalker's dichotomy of structures is of relevance. Similarly Lawrence & Lorsch (1969) stressed the importance of the environment in analysing organisations and dependent on the environment, different theories of organisation theory could be applicable.

The systems and contingency school reflected the rise of computers and information systems in business. The organisation was viewed as a complex set of dynamically intertwined and interconnected elements, including its inputs, processes, outputs, feedback loops and the environment in which it operates. A change in any element inevitably causes changes in other elements (Schafritz & Ott: 234). Katz & Kahn (1966) call such a system an open system, where the system adapts constantly to changing environmental factors. In East Germany the environment had changed from closed to open. J. D. Thompson (1967) offered helpful advice to firms moving from a closed to an open system. He advocated dividing the organisation into sections which interacted with the newly unstable environment, and others which concentrated upon the technical operations, which he assumed were more stable. Exactly such a dilemma faced the management of all East German firms after currency reunion. Indeed Galbraith (1973) noted that uncertainty was prevalent amongst open system organisations due to the relative lack of information viz. a viz. the amount needed. The greater the uncertainty, the more an organisation is advised to use a contingency approach to planning and decision making.

The power and politics school takes an even further step along the road to more realism in organisational theory. The goals of the organisation are not always automatically co-opted by players. Coalitions within the firm continuously compete with one another for scarce resources using power and politics to attain their aims. In East German take-overs, or indeed any take-over, there is automatically two camps (the acquirer and the acquired). A lack of balance between these two camps can lead relations being governed by power. According to Pfeffer (1981), power and authority are synonymous and therefore legitimate or structural authority gives the holder significant advantage. New owners may then have significant structural authority which is easier to exploit if the acquired employees are individualised as opposed to being in a solidifying group. The reality is that power is not always based on structural authority, people without such authority protect their domains and hence their status. In the ex-DDR this was common, with a so called *Planerfullungspakt*¹² (Voskamp & Wittke, 1991), here workers and their supervisors agreed unofficial output norms. The supervisor gained the security of some output, the workers protections from the worst excesses of party doctrine. Mintzberg (1983) splits up organisations into groups of influencers who try to attain their goals by exercising power. Mintzberg has five external and six internal groupings of influencers, all of whom influence events inside the firm and inside firms researched here.

The final school of organisational theory literature came to the fore in the 1980s and is the organisation culture school, a continuance of the move started under power and politics towards more real life equivalence. An organisation's culture is often described as 'the way we do things round here'. Schein (1985) brings in a more precise definition: 'deep level basic assumptions and beliefs that are unconsciously shared by members of an organisation and have been learned'. The culture is the result of continuous learning of responses that have been successful in the past in linking the environment to the firms internal workings. Schein's view of organisational culture stems from theories of group dynamics and group growth. Due to the historical, cumulative nature of organisational culture, it is by definition difficult to change and also potentially at odds with a

¹² In English " a plan fulfilment pact". This was a subtle mixture of co-operation and non-co-operation. The workers knew they would not be fired and used this power to extract a gentle working tempo, which would attain the low production targets but no more.

constantly changing environment. This later point is reflected vividly in the consequence of acceptance of Peters and Waterman's (1982) idea of using successful organisational cultures as models for changing other less successful firms. The successful firms are, with the benefit of hindsight, no longer so successful and the imported culture was never accepted at the deep levels necessary to become an organisational culture. The importance to the situation in East Germany is that successful organisational cultures, of say West German firms, cannot be simply imposed on newly acquired East German firms and success automatically follows. Results from the field interviews plus the failure of one M&A (see section 5.5.2) highlight this point.

3.4 Cross-Culture Literature

One further source of macro level literature that needs mentioning at this juncture is that of national culture and its relationship with the organisational culture school needs to be defined. Culture was already noted as having a major influences on a firm.

Organisations reflect the national culture where they are situated but also have their own organisational culture flavour i.e. culture exists not just in an organisational or national setting but in both. We do not acquire a new culture or lose the one we possess when we walk through the door to our workplace. According to Hofstede 1980: 10, everybody carries several layers of different cultures in their heads at all times. These include:

- national
- regional
- ethnic
- religious
- linguistic
- generational
- class
- organisational

Germane then to this research is national culture i.e. the culture of East Germany as opposed to West Germany or Great Britain. The review of literature on national culture

started with Hofstede (1982 and 1991). Smith (1992) champions Hofstede as the major contributor to understanding national business cultures. Hofstede used a data base from 72 IBM national subsidiaries, 38 occupations, 20 languages in 1968 and repeated his questionnaire survey in 1972. Hofstede's cross-cultural study grouped countries according to certain dimensions using cluster analysis. The four dimensions were: authority, individuality, masculinity and uncertainty. However with the exception of Yugoslavia, as it then was, IBM had no subsidiaries behind the iron curtain. So West Germany was used as a surrogate for East Germany at the start of the research. Hofstede's four clusters were later extended to eight by Ronan and Shenker (1985) but still without an eastern block country being represented. For a summary of the 61 replications of Hofstede's work throughout the world, by the end of 1993, see Soendergaard (1994).

A crucial question to usefulness of any research in the area of cross-cultural comparison is whether the world's cultures are moving closer together, through travel, internationalisation of business, better channels of communications and information etc. This idea is called the 'culture free thesis'. It is important because if say East German and West German national cultures are quickly converging, then the results of this research could be viewed as interesting but quickly to become irrelevant data. A good summation of the 'culture free thesis' is given by Hickson & Pugh (1974). The idea that the logic of industrialism through the economies of scale and technology force a common pattern in different countries grew in acceptance throughout the 1960s, (Kerr et al (1960); Hickson et al (1974); Inkeles (1960); Galbraith (1967)). Child & Kieser (1979) review specifically the 'culture free thesis' by looking at organisational and managerial roles in British and West German companies without reaching any firm conclusions. The opposite camp (culture specific) is naturally focused around Hofstede with support from among others Haire et al (1966). Hofstede himself maintains that national cultures are moving but that they are moving together so the net result is little convergence. Replications of Hofstede's work according to Sondergaard (1994) support this view only in the area of increased world-wide individualisation, other dimensions seem not to have changed over time. That means perceived national cultural differences are staying that way - the 'culture specific' school is maybe vindicated, which increases the relevance of this specific research.

It is one thing to believe national culture affects values at work in organisations, it is another to believe, like Child, (1981), that national culture affects behaviour. Millar (1997) cautions that the assumption of national culture affecting behaviour (and not just values) is untested and in her own work on Eurotunnel, not supported. The relevance of decoupling national culture from behaviour in this research is that possibly East Germans took on communist ideals not as values but as behaviour. Behaviour is by far the easier of the two to change. However if the 40 odd years of socialist society had occasioned the acceptance of communist thought as an internalised value, then change in this area would be much more difficult and time consuming. This point affects concretely the variable of individual Vs. collegiate behaviour, to be discussed in depth in Chapter 4. The observed stubborn reluctance of East German employees to move away from group to individually based work activities supports the view that this area represents an internalised value, not a temporary behavioural trait.

Hofstede found that national culture explained more of the differences in work-related values and attitudes than did position within the organisation, profession, age or gender (Adler, 1991:46). The findings from Hofstede's work which are relevant to the research goals of this research are in two of his four dimensions of culture, uncertainty avoidance and individualism- collectivism. The other two dimensions, masculinity/femininity and power-distance although crucial variables in cultural differences between some nations showed similar values between Britain and West Germany. As the research is looking for dissimilarities in Anglo-German culture, then these two dimensions were not investigated. It should be remembered that four of the firms visited in the field research had British involvement in the M&A, the other two American i.e. all have similar Anglo-Saxon heritage.

It is worth noting here that a replication of Hofstede's work in East Germany has taken place (Hentze & Lindert, 1991/1992) and as if to prove the dangers of using West Germany as a surrogate, a significant difference was also found between UK attitudes and East German in the area of power distance - the third Hofstede dimension. The significance of this finding will be addressed in the data chapter literature review.

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Is it possible to talk of a German culture or are there two, one for the ex-DDR and one for West Germany? The answer to this question affects this research in so far as any cross-cultural research cited between West Germany and Britain can only be used as a parallel for East Germany if commonality exists. Recent polls of German opinion (Spiegel Nr 27/3, July 1995) showed 67% of Germans supporting the statement 'the Wall is gone but the wall separating our thoughts and feelings is growing'. Support for the nurture theory. Further work on East German female consumers (Millar, 1994), discussed below, also supported the nurture theory. The nurture Vs. nature debate has direct implications for data collection, hence the concentration of interviews with East Germans as opposed to West Germans or foreigners.

3.7 East Germany

The general literature review on East Germany is split by language. The English language literature on East Germany falls into two categories. A wide introduction into East Germany aimed at interested generalist readers (Edwards & Lawrence, 1994) or more specific research on certain segments of East German society, (Hitchens, et al, 1992, Millar, 1994). Millar's article was very relevant as she assessed the changes in attitude of female consumers in East Germany, the rest of the CEE nations, West Germany and Great Britain. Hitchens et al produced a review of the comparative productivity between East Germany, West Germany and most uniquely, Northern Ireland.

Millar's results showed East German consumers were still subject to the legacy of the old system and the trauma of its displacement. East Germany then was firmly allied to other CEE consumer attitudes and not West German. The attitudes investigated were: optimism or pessimism about the present and future, receptiveness to marketing, home centredness, attitudes towards the west, consumer's frustration and children's buying interest. Only in the areas of reception to marketing and westernisation was there any solidarity between East and West German consumers. Interestingly both sets of German consumers were highly sceptical of advertising. Having seen the inadequacies of German adverts, that is not surprising.

German monetary union (GEMU) on 1 July 1990 can be viewed as a forerunner for the European single currency. The effects on East Germany of GEMU could well reoccur in other peripheral, small, low productive EC countries, (Hitchens et al, 1992). That East Germany was poorer and less productive than its western neighbours should be of no surprise (except for the CIA, who constantly overestimated the GDR's GNP and placed the DDR as the 9th largest world economy). Kinsella (1991) estimated East German per capita GNP at about 49% of West Germany's in 1988, even after allowing for price differentials. As discussed in Chapter 1, Productivity was equally dismal. Even the most optimistic assessment only reached 50% of West German levels (Korn, 1991) and shows the depth of the divergence. As in most countries, it is erroneous to treat the DDR as a homogeneous economy. The southern Länder: Sachsen-Anhalt, Sachsen and Thuringen are more heavily industrialised than the northern agricultural Länder: Mecklenburg-Vorpommern and Brandenburg, whilst East Berlin had most services, (Bode & Kriegen-Boden, 1990). The immediate result of monetary union was, as expected from the change management material (Grinyer & McKiernan, 1988), a 'sharp retrenchment' producing job losses and some productivity improvements, as already discussed in Chapter 1.

There has been a veritable avalanche of German language material on the transformation of East Germany since the fall of the Wall (Schwarz (1995). The sparsity of what the West knew before is apparent from Table 3-8, situated in the Appendix, which lists major studies both before and after the Wende in 1989. Note these studies are concerned with mainly management as opposed to employees right across the organisational hierarchy.

Table 3-8 is in the Appendix

Title: Empirical Studies about East German Management before and after reunification. Source: Lang (1994)

Eight studies in the 40 years of communism compared with 26 and rising fast since 1989 shows the explosive development of academic interest in East German transformation. However as Alt et al (1995) complain, the flood of studies has not as yet produced much theory, a point supported by: (Gutmann (1991); Mayer (1994);

Reißig (1994). Many studies by western academics and practical change programs from western management consultants uncritically utilise existing western management theory (Spender (1988), without even seeking possible new theoretical models that would be grounded in the reality of the transforming CEE economies. There are many reasons other than western chauvinism for this lack of progress in producing new transformation theory: some are specific to the situation in East Germany, which is atypical of other Central and Eastern European (CEE) economies also switching from a planned to a market economy whereas others depend upon the definition of a transformation.

East Germany is different from CEE neighbours in as far as monetary union, the use of a privatisation authority to quickly sell off ex-state owned firms and massive inward transfers from the old Bundesländer meant that economic transformation happened extremely quickly and ruthlessly. One could therefore argue that any theory coming out of the East German experience could show the way for the more slowly transforming CEE economies. This 'leading indicator' function for East Germany rather as California is for the rest of the USA and then the world in marketing, is very seductive, but probably due to the specific circumstances isn't indicative of future trends.

A more useful starting point is the definition of a transformation, because dependent on the definition chosen the process can be viewed as being finished or still on-going. The traditional definition of transformation is a political/economic one (system integration). Here once the political system has been changed to a democratic one and the economic system from a plan to a market one then the transformation is finished. The East German transformation could be viewed as being completed under this definition, whereby other CEE countries are still in the middle of this system integration process. However it is the researcher's viewpoint and that of Alt et al (1995); Reißig (1994); Peter (1994); Trommsdorf (1994) that alongside the system integration, a social and culture integration is necessary for true transformation to have taken place. Alt et al (1994) use a definition of transformation which extracts from management theory, industrial sociology and psychology. 'Transformation is a controlled and self fulfilling social-cultural process which causes basic alterations in political, legal, technological, managerial, organisational and social structures. These structural changes also reflect

similar basic alterations in underlying values, mental and behavioural processes of individuals and groups within their environment and organisations in society'.

Ethnographic studies in East German M&As are rare. However thanks to the kind interest showed by Dr. Birgit Müller, one example came into the possession of the author, (Müller, 1993, *The wall in the heads: East-West German stereotypes and the problems of transition in three enterprises in East Berlin*). One of the three enterprises reviewed, Hochhinauf, is the story of a 100% acquisition by an American corporation. The parallels between Hochhinauf and some of the six M&As visited in this research are interesting and revealing. Specifically the use of individual based incentives and the switch from standardised to individualised products.

3.8 Conclusions and Onward Link

East Germany, being the CEE country experiencing the most rapid transformation is therefore an interesting research location. The junction of Eastern and Western national and organisational cultures in M&As forms an even more potentially lucrative research laboratory. Armed therefore with theories from Strategic Management, Organisational Theory, Mergers & Acquisitions, Change and Cross-cultural Management which may or may not be relevant in an eastern setting, the research turns to concrete primary data from the field. The general literature of Chapter 3 will be supported by a more specialised look at that literature relevant to the data chapters' subject matter.

Chapter 4 - Group Vs. Individual

4.1 Chapter Overview

Chapter 4 is the first, and much the smaller, of two chapters dealing with research material collected in the field. It is a chapter which deals with the processes involved when individuals and groups learn to adapt to their new circumstances. In a series of interviews in six East German M&As, perceptions and depths of feeling about job uncertainty, possible lack of initiative and personal responsibility were surfaced. The connections between these constructs and successful integration of the post-acquisition East German work force were then postulated, taking into account the changing role of the work group. The breakdown of the East German work group (*Brigade*) in favour of increasing individualisation under pressure from job insecurity has implications for change management and successful integration.

4.2 Setting the Context

The starting point for reviewing literature of specific interest to assessing the role of the group and individual in helping/hindering integration in East Germany is the work of Geert Hofstede, already introduced in Chapter 3. The findings from Hofstede's work which are relevant to the research goals of this research are in two of his four dimensions of culture, uncertainty avoidance and individualism- collectivism. The other two dimensions, masculinity/femininity and power-distance although crucial variables in cultural differences between some nations showed similar values between Britain and West Germany. As the research is looking for dissimilarities in Anglo-German culture, then these latter two dimensions were not investigated. It is worth noting here that a replication of some of Hofstede's dimensions in East Germany has taken place (Hentze & Lindert, 1991/1992) and as if to prove the dangers of using West Germany as a surrogate, a significant difference was also found between UK/West German attitudes and East German in the area of power distance - the third Hofstede dimension. The significance of this finding will be addressed later in Section 4.2.6.

4.2.1 Individualism - Hofstede's definition (Hofstede, 1991: 51) is “individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his and her immediate family” i.e. to take personal responsibility. In measuring individualism Hofstede created an index (IDV) based on answer about 14 work goals, Table 4-1 shows the results.

Table 4-1
Individualism Index Values for Selected Countries

Country or Region	IDV Score	Score Rank
USA	91	1 (Top)
GB	89	3
West Germany	67	15
Yugoslavia	27	33/35 (only communist society measurement)
Guatemala	6	53 (Lowest)

* Adapted from Hofstede 1991: 53

So it is to be expected that East German society, bearing in mind the 40 odd years of political encouragement of the group over the individual, will be even more collectivist than West Germany. Management in an individualistic society is management of individuals whereas in a collectivist society its management of groups (Hofstede, 1991: 65).

There is an extreme sparsity of references on the subject of individualism as opposed to group preference in German language research, one exception being Röllinghoff (1996). It should be remembered that as shown in Table 4-1, Anglo-Saxon scores on individualism (IDV) were substantially above those of West Germany. Hentze and Lindert (1992) confirm that East German IDV scores are even more weighted towards group than West German. The questions used by Hentze & Lindert to measure IDV have been criticised and given their research took place more than thirty years after Hofstede direct comparisons of IDV are inadvisable. An overall move towards more individualism is observable world-wide, due to rising levels of wealth, which according to Hofstede is directly correlated with increasing individualism (Hofstede, 1991: 76).

The causality according to Hofstede is higher wealth causing higher individualism, not the reverse. He found that out of the 20 countries surveyed in the IBM survey, 19 had grown richer between 1968 and 1972 and they had all shifted towards more individualism. Poor Pakistan was the only one to get poorer and suffered a shift towards collectivism (ibid.: 77). Therefore the implication for East Germany with a supposed relatively low IDV is that as the population becomes richer, there should be a convergence upwards towards West German individualistic index values, so long as the GNP of both parts of Germany is also converging.

4.2.2 Individualism and Job Security.

The researcher was unable to uncover any literature connecting unemployment, or more importantly fear of job loss, to a rise in individualism. As will be seen in the discussion of the field research findings, there is an almost hysterical fear amongst the interview subjects about loss of their job. The link hypothesised is that: *with rising job retention uncertainty, the old group bonds of integration and co-operation start to break down.*

Hofstede had nothing to say about this job insecurity influence on individualism, but its existence is captured in Lang (1994), where he reports measures of job security fears in the DDR before reunification and the New Bundesländer afterwards, see Table 4-2.

Table 4-2

Job Security Fears in East German Management

1 = High feeling of job insecurity

7 = Low feeling of job insecurity

Country or Region and date of survey	Study and publication date	Likert Scale (1 - 7)
DDR - 1987	Markinowski 1989	6
DDR - 1990	SOKULT 92 & Hentze/Lindert 1992	1
New Bundesländer - 1992/3	Sokult 92 in Lang 94	2

* Adapted from Lang 1994

The linkage between individualism, or more specifically loss of group cohesiveness, and job loss fears will be addressed under the findings of the analysis of the research data.

4.2.3 Groups - Starting with the Hawthorne studies, 1924-1932 - see Mayo (1933), there has been an abundance of significant research on groups that has implications for organisational behaviour and management (Luthans, 1992: 350). Luthans goes on to summarise this research and its impact on effectiveness, see Table 4-3.

Table 4-3

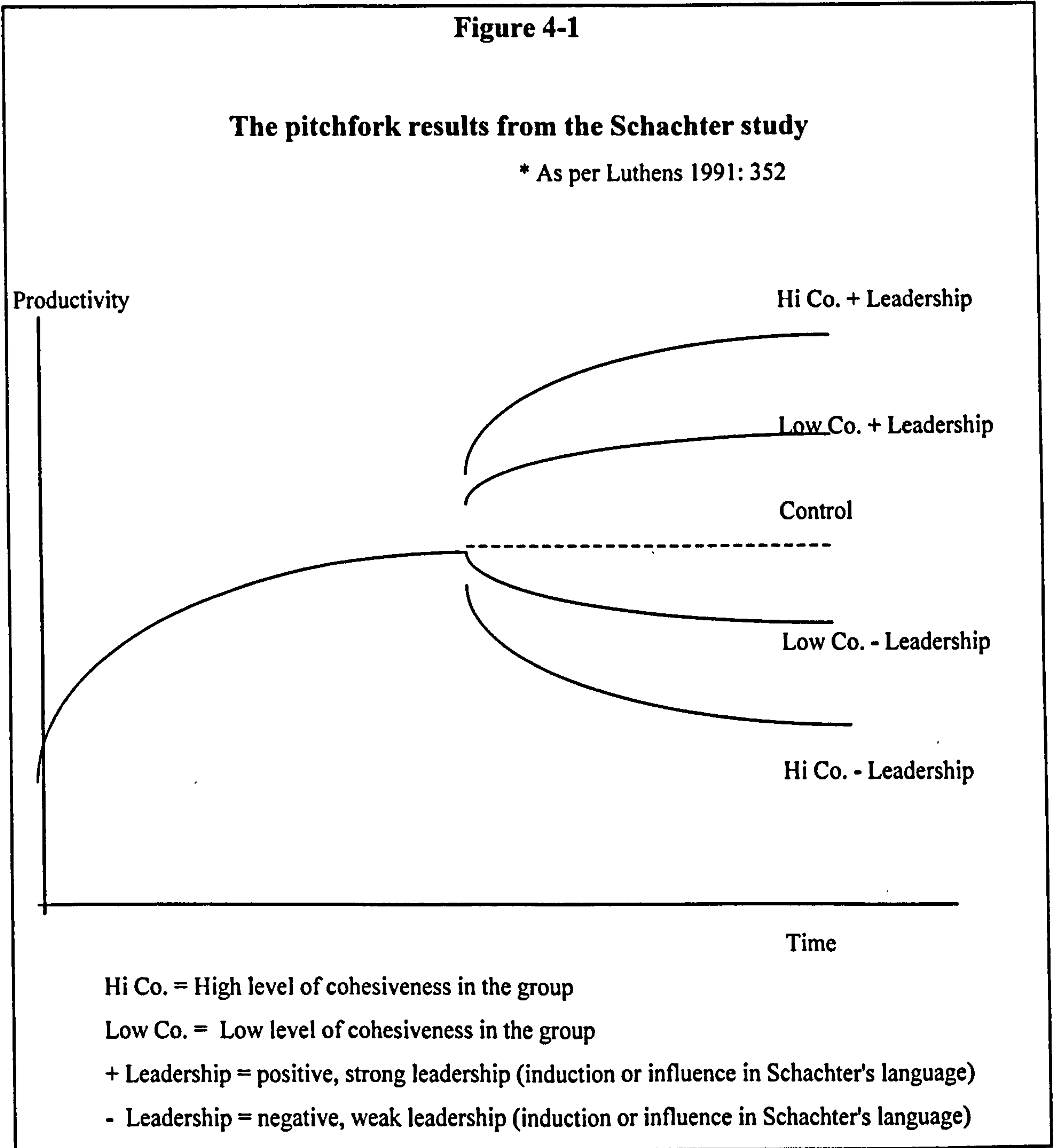
**Summary of Research on the Impact That Groups Have
on Organisational and Individual Behaviour**

The Impact of Groups on Organisational Effectiveness	The Impact of Groups on Individual Employee Effectiveness
Accomplishing tasks that could not be done by employees themselves	Aiding in learning about the organisation and its environment
Bringing a number of skills and talents to bear on complex difficult tasks	Aiding about learning about oneself
Providing a vehicle for decision making that permits multiple and conflicting views to be aired and considered	Providing help in gaining new skills
Providing an efficient means for organisational control of employee behaviour	Obtaining valued rewards that are not attainable by oneself
Facilitating changes in organisational policies or procedures	Satisfying important personal needs, especially needs for social acceptance and affiliation
Increasing organisational stability by transmitting shared beliefs and values to new employees	

* Adapted from Nadler et al (1979) in Luthans 1991: 351

After the Hawthorne Studies further research using controlled experiments into group cohesiveness and the effect of such cohesiveness together with leadership had on productivity were carried out by Schachter et al (1951) and Berkowitz (1954). The results indicated, especially in the latter study, that highly cohesive groups which are well led obtain the highest productivity. Paradoxically cohesive groups which were poorly led obtained the lowest levels of productivity. Low cohesive groups regardless of leadership quality fell between the two extremes of the cohesive groups. The implications for management being that a group when well handled is a most valuable productive tool, however when mishandled the consequences can be dire. As we shall see, East German industry was based on the group (*Kader*) and therefore transformation attempts would seem to have most potential success if the group was maintained and

given strong leadership. The results of Schachter's work are summarised in diagram format in Figure 4-1.



4.2.4 Groups Vs. Individuals; pros and cons

Where do the advantages of groups or individuals come from in an organisational setting? Morris et al (1994) produced the following tables, which try to identify the pros (4-4) and cons (4-5) of both individualism and collectivism within the organisation.

Table 4-4
Hypothesised pros of individualism and
collectivism in an organisational setting

Individualism	Collectivism
<p>Pros:</p> <ul style="list-style-type: none"> • Employee develops stronger self-concept, more self-confidence • Consistent with achievement motivation • Competition amongst individuals encourages greater numbers of novel concepts and ideas: breakthrough innovations • Stronger sense of personal responsibility or performance outcomes • Linkage between personal effort and rewards creates greater sense of equity 	<p>Pros:</p> <ul style="list-style-type: none"> • Greater synergy from combining efforts of people with differing skills • Ability to incorporate diverse perspectives and achieve comprehensive view • Individuals treated as equals • more personalised, synchronised, harmonious while interpersonal conflicts are discouraged • Greater concern for welfare of others, network of social support available • More consensus regarding direction and priorities • Credit for failures and successes equally shared • Teamwork produces steady, incremental progress on projects

* Morris et al 1994: 68

Table 4-5
Hypothesised cons of individualism and
collectivism in an organisational setting

Individualism	Collectivism
<p>Cons:</p> <ul style="list-style-type: none"> • Emphasis on personal gain at the expense of others, selfishness, materialism • Individuals have less commitment and loyalty, are more 'up for sale' • Differences among individuals are emphasised • Interpersonal conflicts are encouraged • Greater level of personal stress, pressure for individual performance • Insecurity can result from over-dependence on one's self • Greater feelings of loneliness, alienation and anomie • Stronger incentive for unethical behaviour • Onus of failure falls on the individual 	<p>Cons:</p> <ul style="list-style-type: none"> • Loss of personal and professional self to group/collective • Greater emotional dependence of the individual on the group or organisation • Less personal responsibility for outcomes • Individuals free ride on efforts of others, rewards not commensurate with efforts • Tendency towards group think • Outcomes can represent compromises among diverse interests, reflecting need to get along more than need for performance • Collectives can take more time to reach consensus, may miss opportunities

* Morris et al 1994: 68

One body of academic research supporting collectivism and questioning individualism (Franke et al, 1991), draws on the concept of 'Confucian dynamism' (CVS) - stressing thrift, perseverance, hierarchical relatedness and also the propensity to work in cohesive groups. The idea of 'Confucian dynamism' is linked with the name of Michael Bond who co-ordinated the 24 researchers who via a cross-cultural study in 20 nations came up with this fifth Hofstede dimension (Hofstede, 1991: 164 & 173). The accent on working in cohesive groups makes CVS an interesting factor for the topic of this chapter and indeed Shane (1994) publishes a table, replicated below as Table 4-6, where interesting differences are shown to exist between West Germany and Britain. There is a link from CVS to agency theory (Ouchi, 1981) where in cultures with a strong sense of obligation and duty to others then there will be barriers to acting opportunistically against

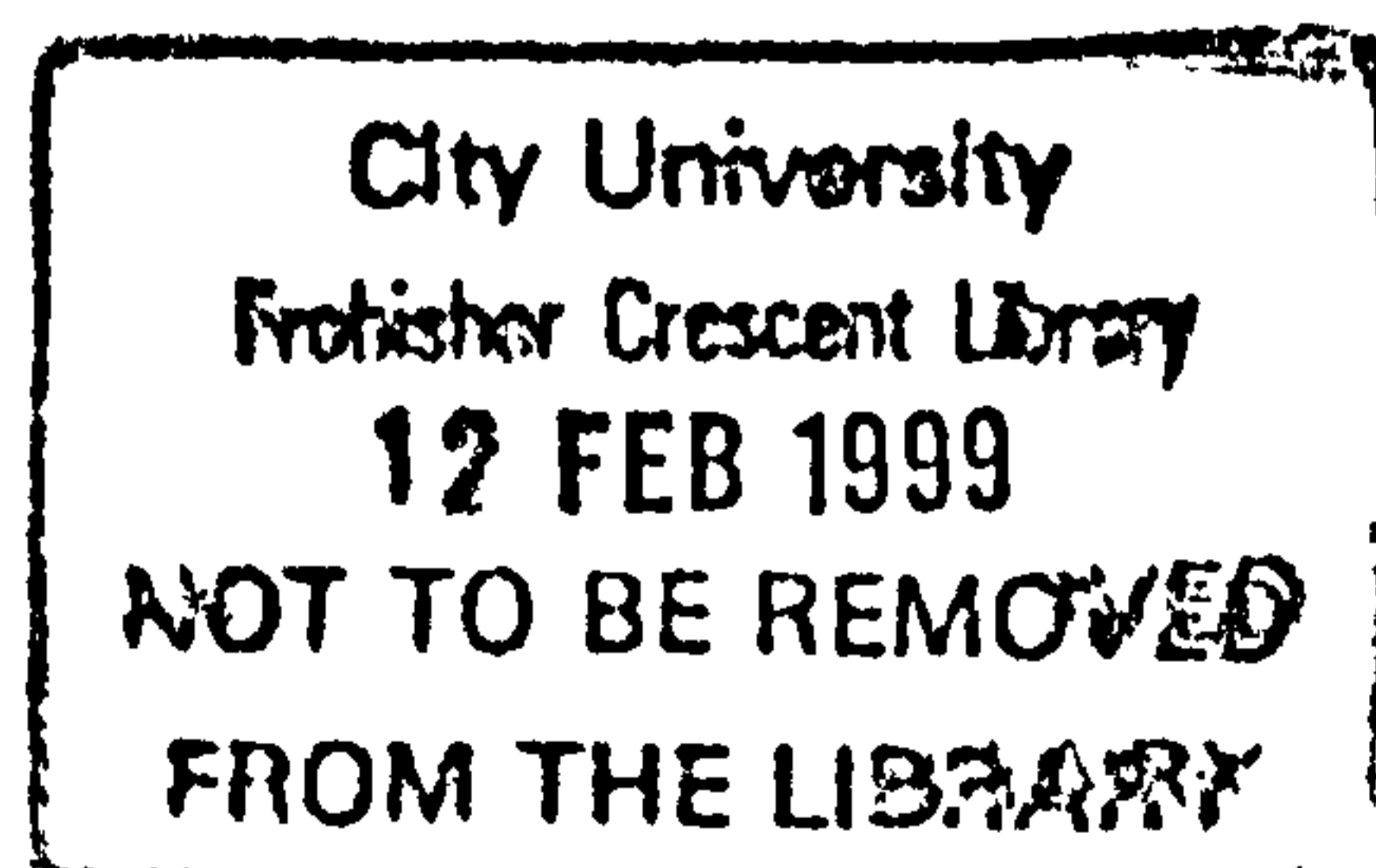
the collective will (the agency problem). Managers have to monitor their workers less if they trust them not to show opportunistic behaviour, thus reducing agency costs.

Table 4-6
National scores on integration/trust

Country	Integration/Trust ² Chinese Dynamism (CVS)
Germany	1.34
Great Britain	0.75
USA	0.44
India (lowest CVS)	-0.72

* Shane (1994)

4.2.5 Uncertainty Avoidance - is a measurement of the (in)tolerance of ambiguity in society (Hofstede, 1991: 111). This definition is extended to 'the extent to which the members of a culture feel threatened by uncertain or unknown situations' (ibid.: 113). This feeling shows itself in nervous stress and the use of written and unwritten rules to provide predictability. Hofstede developed an uncertainty avoidance index (UAI) which was calculated mathematically from replies to questionnaire questions. The index ranged from zero (weakest uncertainty avoidance) to over 100 for the strongest. Citizens of countries with weak uncertainty avoidance e.g. Singapore (8) were relatively comfortable in unpredictable situations. At the opposite extreme, high uncertainty avoidance e.g. Greece (112) means a pathological fear of being in situations where the outcome is unsure. This dimension showed the largest difference, (when measured by score rank), between British and West German cultural measurements of all Hofstede's measures. See Table 4-7.



² Figures from Confucian Connection (1987)

Table 4-7**Uncertainty Avoidance Values for Selected Countries**

Country or Region	UAI Score	Score Rank
Greece	112	1 (Top)
Yugoslavia	88	8 (only communist society measurement)
West Germany	65	29
Great Britain	35	47/48
Singapore	8	53 (Lowest)

* Adapted from Hofstede 1991: 113

The data in Table 4-7 allow the tentative formulation of an assumption. German society is more intolerant of ambiguity than British and if Yugoslavia can be used as an indicator of communist societies, then East Germany can be assumed to be even more so. A case can be developed to link the assumption about uncertainty avoidance to a perceived lack of initiative within the East German workforce. When an employee uses initiative, then they probably circumvent rules or do something that is not covered by rules and procedures. They are entering an ambiguous situation where the outcome is not certain. It is therefore proposed that

East German employees will show relatively less initiative than their British or indeed West German counterparts.

Hofstede's view of the more cautious German nature receives backing from Laurent (1983). In answer to the statement 'It is important for a manager to have at hand precise answers to most of the questions that his subordinates may raise about their work', 46% of German respondents replied they agreed, whereby only 27% of British replies agreed. The study involved managers in nine Western European, the USA and two Asian countries. Similar results for a further statement about uncertainty avoidance were obtained. In reply to the statement 'In order to have efficient work relationships, it is often necessary to bypass the hierarchical line', 54% of German respondents agreed whilst the figure for British replies was 69%.

That differences in culture are recognised as a potential positive factor for multinationals is shown by the recent take-over of Morgan Grenfell by Deutsche Bank

(Financial Times, 29 October 1994). According to Herr Kopper, the board member of Deutsche Bank involved in the take-over: 'We hope it will give the Deutsche Bank another culture, thereby speeding up other things that we do'. Deutsche wished to learn from the innovating, free-wheeling, Anglo-Saxon way of doing business. 'Germany's consensus minded approach leads to consistency and quality but is a handicap when technologies and financial markets are rapidly evolving'. The subsequent scandal over rogue trading must have intensified the learning process about the downside of free-wheeling dealing. There are only 9 million credit cards in Germany compared with 37 million in GB, (Financial Times, 30 November 1994). Credit cards hostility can be seen to be a German reaction to the fear of uncertainty and follows on other examples - Germans took ages to start using cheques and cash machines.

There seems to be a link between the existence and acceptance of hierarchy and the need for uncertainty avoidance. Maurice et al, 1980 couple the existence of qualifications to general acceptance in a certain level of job. What they found was that West Germans were much more specialised both in qualifications and years of on the job training than comparable British managers and supervisors. The inference being that British firms are prepared to accept a generalist in a responsible production position, whereas German firms would not.

As briefly mentioned above in this chapter, the Hofstede dimensions of Uncertainty Avoidance (UAI) and Power Distance (PDI) have been longitudinally tested now in East Germany with some interesting results, see Table 4-8 for UAI and Table 4-9 for PDI below.

Table 4-8
Uncertainty Avoidance Index (UAI) in East Germany

Country or Region and date of survey	Study and publication date	UAI Score	Score Rank
BRD - 1968 & 1972	Hofstede (1991)	65	29
BRD - 1992	Hentze & Lindert 1992	57	Would be 33
DDR - 1990	Hentze & Lindert 1992	75.9	Would be 21/22
New Bundesländer - 1992	Sokult 92 in Lang 94	-	-
New Bundesländer - 1994	INTERKULT in Herrmann & Wirant 1994	62.03	Would be 31

* Adapted from Lang 1994: 87

A word of warning is necessary in making comparisons of the scores. The Hofstede original surveys were made up of interviews with employees of IBM who according to Hofstede (1991: 251) make up a non-representative but functionally equivalent sample of national populations. However the three German studies in Table 4-8 looked at only managers and therefore they are even more unrepresentative of the population as a whole. Taking this criticism on board it is still possible to review the direction and speed of change in at least the East German cultural indicator. It would seem that East German managers at least have a higher feeling of threat from uncertain situations than their West German counterparts. Coming out of several decades of stagnation and resistance to change onto a revolutionary changing world platform, this finding is not too surprising. What is encouraging is the relative speedy movement of UAI figures towards their West German counterparts. One could generalise and say that 40 yr. of communism and isolation had nurtured an even more pronounced dislike of uncertainty than existed prior to the post war German separation into two states. However the return to old, inherited levels of uncertainty avoidance i.e. nature is taking place relatively quickly, but differences still exist. Naturally the distance to Anglo-Saxon attitudes in this area is still substantial.

4.2.6 Power Distance Index in East Germany

An unexpected finding in the review of German language literature was made in a replication of one of Hofstede's dimensional tests, that of power distance. Hofstede (1991: 28) defines power distance as *the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally*. That means in a small power distance country there is only limited interdependence between boss and subordinate, whereas in large power distance countries the opposite is the rule. The power distance dimension was not thought too relevant at the start of the research as Britain and West Germany scored exactly equal on this dimension as shown in Table 4-9, (Hofstede 1991: 26).

Table 4-9
Power Distance (PDI)

Country	Power - Distance ¹³
Germany	35
Great Britain	35
USA	40
India (lowest CVS)	77

* Hofstede (1991)

It is theorised that the formal German propensity for hierarchical structure, so well characterised in the *Hauptmann von Köpenick*, has been partly erased with generations of German schoolchildren being taught in post WW II schooling to emphasise anti-authoritarian attitudes. This was a conscious and laudable attempt to pre-empt any recurrence of *Führer* mentality extremism. Also at play here is the better training and qualification of the West German workforce, as shown already in Chapter 3, Table 3-3 from Maurice et al (1980). The higher standards allow most shop floor production problems to be handled inside the work group in West Germany without going to the boss. Whatever the causes, there did not seem to be much mileage in researching power

¹³ Figures in Hofstede & Bond (1988)

distance in East Germany. Lang (1994) in his research report on the project SOKULT 92 turned up some very interesting figures for East German power distance, see Table 4-10.

Table 4-10
Power Distance Index (PDI) in East German Management

Country or Region and date of survey	Study and publication date	PDI Score	Score Ranking
BRD - 1968 & 1972	Hofstede (1991)	35	42/44
BRD - 1992	Hentze & Lindert 1992	24	Would have been 49/50
DDR - 1990	Hentze & Lindert 1992	62.75	Would have been 25/26
New Bundesländer - 1992	Sokult 92 in Lang 94	42.55	Would have been 37/38
New Bundesländer - 1994	INTERKULT in Herrmann & Wirant 1994	45.10	Would have been 37

* Adapted from Lang 1994

The relatively high PDI figure before reunification can be hypothesised as being the old pre-war Prussian acceptance of authority being frozen in place throughout the communist era. A second hypothesis could be that the political system in East Germany, with an all powerful, not to be questioned SED political authority, had ingrained in the population an acceptance of power against which they were helpless to make changes. The events immediately prior to October 1989 when the political absolute power was successfully challenged would suggest that the second hypothesis is of a temporary nature, if at all applicable. Certainly the rapid drop in the PDI scores immediately after the union of the two Germanys points to an element of forced cow tailing in the population. These interesting figures, with possible macro level causes, are also useful to the goals of the research as barriers to change may be influenced by the acceptance or not of authority. Specifically if the new Western owners and managers were seen to be and accepted as experts in the black art of capitalist

management, then the strategic changes they wished to make would receive less opposition than if they were to come from the old combine managers.

4.2.7 The Post-Repression Psyche

One body of literature on East German current culture, already mentioned in Chapter 1, section 1.1.4, is the trilogy of books by Hans-Joachim Maaz (1990,1993,1994). Maaz is the head physician of a Halle (East Germany) psychological clinic and as such has had much opportunity to see the trend in mental health both before and since the new era dawned.

Maaz analyses the socialism in the DDR and shows how just about everyone suffered from some form of repression, be it from the state, Stasi, justice, education, family, medicine or religion. The outcome of this constant repression was, and is, a feeling of deficiency and blockage of avenues to express feelings. These internal feelings have developed into a craving for the non-existent more stable past, with a tendency to seek out authority and obey and depend on it. Confronted with changed ideals such as creativity and self-reliance and disappointed with the new economic and social conditions, the average East German feels lost in a sea of insecurity. Add in the collision with the western world with its egocentricity, then an explosive recipe exists which can detonate with little warning. The ability of a psychologist to take his individual observations and forecast the state of the nation's people is risky (see methodology section). However, the issue of self-reliance is of immense importance to this research forcing itself into the main body of interviews.

4.3 Emergent Questions and Working Assumptions

The problem statement and main research questions involved here were the subject of Chapter 2, sections 2.4 & 3.2:

- What were the key hinderances to integration and learning?
- What strategic actions eased the take-over process?

- What were the implications for two-way learning of any actions taken?

In addition to the research questions, the literature chapter, backed up by a more specific literature review in this chapter, supports three working assumptions to do with hinderances to integration and learning. The assumptions are bedded in the work of Hofstede (here West Germany is used as a surrogate for East Germany) or Hofstede replications in East Germany itself.

The most comprehensive and significant pattern was hinted at in the literature, but strongly emerged from the data analysis itself. The pattern is very comprehensive and significant as it incorporates all three of Hofstede's indexes, (PDI; UAI & IDV) but is not a mere replication of Hofstede's work.. UDI and PDI surveys have been carried out in East Germany, so therefore assumptions 2 & 3 below are interesting but not path breaking. However the novelty and severity of unemployment makes assumption 1 of higher significance and importance.

The first proposition is comprehensive in that it addresses full square the rising individualisation, supported in the literature, and links it to the real life situation of employees in East Germany. It also allows some insight into the research problem.

1. *Rising job uncertainty will break down group bonds of integration and co-operation.*

Working assumption 2 is the outcome of Hofstede's uncertainty avoidance index (UAI) differences between GB and West Germany (Table 4-7). Replication of Hofstede's work in East Germany shows a relatively convergence of West and East German UAIs (Table 4-8), with East Germans showing more anxiety in uncertain situations. The pronounced GB - German difference on the UAI supports the view of differing initiative levels, because to use initiative means taking on board the risk of individual failure. Initiative in the work force can be viewed as a positive resource under the RBV of the firm. Therefore its absence may lead to competitive disadvantage.

2. *East German employees will show relatively less initiative than their British or indeed West German counterparts.*

Working assumption 3 is supported by national differences in Hofstede's individualism index (IDV), see Table 4-1 and power distance index (PDI), see Table 4-9. The perception that individual employees will hide in their group to escape responsibility for their actions is backed-up by relatively high levels of PDI - here the boss gives instructions, so he takes responsibility. Also by low IDV - here the group takes responsibility, not its individual members. As in the second assumption, individual responsibility in the work force can be viewed as a positive resource under the RBV of the firm. Therefore its absence may lead to competitive disadvantage.

3. East German employees will show relatively less responsibility for their own actions than their British or indeed West German counterparts.

4.4 Research Design & Data Collection

4.4.1 Research Design

Research design is defined as the overall structure needed to carry out the research. It addresses how one goes from hypotheses (in quantitative research) and emerging patterns (in qualitative, grounded research) to a full blown research process. Under a quantitative methodology thought has to be given into how to operationalise the concepts under review (measurement), how to collect the data bearing in mind the sample size needed and then how to analyse whatever data are collected. Qualitative methodology starts the analysis process as soon as the first data are available. Indeed this is necessary to refine the questions being asked, observe the emergence of patterns and go through the cycle continuously of conceptualisation - data collection - analysis - conceptualisation. The recycling process finishes when the returns any new data are bringing, i.e. new patterns or deeper understanding of known patterns, become minimal or exhausted. The methods available to qualitative researchers have been mentioned previously in Table 2-2. The more structured the design of the data collection, the more difficult it is to tap into something unexpected or "unpeel the onion" (Valentine & Evans, 1993).

4.4.2 Choice of Type of Qualitative Design

The various research designs available for qualitative field research which were named in Table 2-2 will, in the manner of a Dutch flower auction, be discarded here if not relevant to the research goals.

As a qualitative design approach has been chosen, experiments or large scale questionnaire surveys can be eliminated from potential methods of prime data collection due to their inherent quantitative basis. Remaining are: in-depth individual interviews, group interviews (or focus groups), case studies and longitudinal, ethnographic research. The longitudinal ethnographic approach would seem to be the most qualitative and phenomenological leaning choice. A longitudinal study i.e. returning over time to the phenomena under investigation is a useful technique to explore aspects of, in particular, processes. Normally in a longitudinal study a small number of field visits are made at different times but this can be expensive, and impractical especially as questions about the pre-fall of the wall, pre-acquisition values, beliefs and attitudes were being sought. Therefore all the information was solicited in the one interview session, obviously putting pressure on the interviewee's memory. The number of firms was limited to six at which time it was assessed that new information and patterns were no longer emerging. There are several examples of studies which have examined participants' interpretation of key events over time (see Gephart, 1984 and Isabella, 1990). These researchers have focused on identifying the cognitive logic (Silverman, 1970) threading through the understanding of a particular situation. Isabella 1990: 9 uses the term "the articulation of organisational members' collective viewpoint on particular organisational occurrences", a reference to the Jungian idea of collective unconscious memory, (Jung, 1933). The frames of reference that individual members of firm's share are created through social interchange and represent the dominant logic or reality of the group (Gephart, 1984; Prahalad & Bettis, 1986). That is exactly the reasoning for asking historical, longitudinal questions about events adopted in this research. However as the acquisitions took place over past years and the major event (the fall of the Wall) over seven years ago, the longitudinal data would have been based on memory, thus ruling out this approach.

The case study method has also to rely heavily on memory of the participants of historical events and feelings towards them. However these are backed up in a case study by artefacts, written documents and other collected items which aid recall. One needs here to relook at the research goals. Certain of the phenomena to be researched are best researched at the level of the firm or at least no lower than the group. Meant here is the interest in two-way learning which, as will be explained in chapter 5, needs to be examined at above the level of the individual. Here the use of case studies is obvious. The discussion in this chapter concerning group and individual is best served by delving into individual and group consciousness of events, albeit within a case study setting.

Thus interviews, either in-depth or in a group setting, were used for examining phenomena which are best reviewed at the level of the individual,. The pros for in-depth individual interviews include the ability to delve quite deeply into the causes of actions. In-depth interviews formed the main pillar of the research design. However a case can be made for group interviews and so the merits of both interview types are discussed below.

One unexpected quandary turned out to be that in studying barriers to change and integration in a M&A, where integration did not go smoothly it was impossible to conduct individual interviews. The employees simply refused to talk individually and so a group interview had to be hurriedly arranged. Six employees of the Firm "F" therefore engaged in a group interview which of necessity had to be more structured than an individual interview.

Similarly, to avoid just "successes" the argument was addressed of: "whether it is logical to obtain all field interviews from people who are working and have successfully integrated?" Surely the 60% of the East Germans who did not successfully integrate and lost their jobs have something to offer? To include this valuable source of information but to keep the research practical, a second pillar of the research were therefore individual interviews with these unfortunate "losers" of the reunification. Luckily these

"losers" were washed up onto unemployment office training programmes and were accessible through contacts with one of the programs in East Berlin.

Pros and cons of individual as opposed to group interviews:

The drawbacks to in-depth interviews form the positive criteria which favour selecting group interviews. Individual interviews are time consuming and expensive. One can obtain the views of 10 - 15 people inside one hour with a group interview. Certainly the data gained will be on a more shallow level as that from an individual interview, but its validity will be of a higher order. Also the breadth of viewpoints and hence potentially interesting linkages will be greater with a group. Offsetting these group advantages are the perils 'group think' and the fear of expressing oneself in the presence of ex-colleagues or even ex-superiors, just such an occurrence heavily affected the group interview. Here the R&D Director of Firm F hogged the conversation, constantly interrupted people of lesser status and tried to direct what was said to his way of seeing the situation.

4.4.3 Data Collection

The organisation and interview details of this chapter have been briefly reported in Executive Summary Tables 1 & 2. Further information concerning the full extent of: case firms involved, number of interviews, positions, ages etc. is encapsled in the "Summary of Data Collection Techniques " Table 4-11 and "Details of M&As Researched", Table 4-12 below. The core details being 42 individual interviews, 1 group interview (6 participants) in a total of 6 East German M&As set out as cases. The M&As were mainly in one sector (engineering services), mainly of medium size (50-400 employees), although there were outliers at each extremity (20 and 2,100 employees). Geographically the M&As were concentrated in the South East of East Germany in the chemical triangle, with once again an outlier in Berlin. 12 interviews were also organised with ex-employees of East German combines.

The importance of the group interview and interviews with unemployed ex-combine employees needs underlining. The group interview took place in Company "F" and is

especially relevant in this chapter for the following reasons. It was intended to interview individually employees of Company "F" in the same way as employees in all the other sample firms were canvassed. The employees involved at Company "F" refused to be interviewed, except in their work group. The reasons for this decision are not too clear but probably were a loyalty to the group, a fear of individual utterances being returned to the management and a feeling of them and us. Firm "F" is the subject of a case study in Chapter 5 but was found to be the most extreme example of non-integration of the acquired work force into the new M&A. The group causes of this lack of integration are extremely interesting and would have maybe not been raised without the group interview.

Interviews with workers who had lost their jobs are relevant because this is a potential source of information which is rarely tapped and they can be neutral and objective as they no longer are working for a firm. The drawback is that often they are angry at losing their employment and therefore are not even handed in their opinions. The unemployed interviewees tended to be all older workers (55 years +) and as such had great difficulty regaining employment but had long experience of life within the old combine system.

What was done in the field research is summarised below in Table 4-11.

<p>Table 4-11</p> <p>Summary of Data Collection Techniques</p> <p>In-depth, unstructured interviews in the context of six cases with:</p> <p>A total of 48 people were interviewed. 42 in individual interviews, 6 in a group interview. The total includes 12 interviews with unemployed people. There were 29 interviews in 5 firms, and a group interview with employees of the sixth plus an individual interview with the firm's president. The case firms are summarised below:</p>

Relevant details about the case firms researched are displayed in Table 4-12 below.

Table 4-12

Details of M&As Researched

Data Source and location	Acquirer Nationality	Size of M&A to total ops.	Merger or acquisition	Details of co-ownership	Business Sector	No. of Employees
Co. A Saxony & Saxon-Anhalt	USA & GB	>5%	Acquisition	100% acquisition	Utilities	2,100
Co. B Berlin-East	GB	>5%	Acquisition	100% acquisition	Heavy Elect- rical Supply Equipment	400
Co. C Saxon-Anhalt	Sweden & GB	>5%	Merger	East German CEO held stock	Chemical & Water sector	50
Co. D Saxony	GB	>5%	Merger	30% of shares East German managers	Chemical & Water Sector	240
Co. E All East Germany	GB	>5%	Acquisition	100% owned West German subsidiary expansion	Agricultural Industry	20
Co. F Saxony	USA	50%	Merger	25% of shares stayed with THA	Specialist Chemicals	100

4.4.4 Diverse or Similar Sample?

The case firms were of approximately similar size. Firms A and E were outliers as one was bordering on a large firm classification and the other a small one, however all the rest can be classified as medium sized firms. They were within similar sectors: utilities, chemicals and engineering services, although Firm E was significantly different. The use of case firms in the same sector allows the variables of technology and market conditions to be discounted as similar. It also helps in reducing 'noise' if the age of the firms is comparable. As all the sample case firms were privatised around the same time, then age was assumed not to be relevant. In-depth interviews were conducted within similar functional areas e.g. sales, finance and operations. Western and Eastern supervisors and Eastern employees were selected in each of the case M&As.

4.4.5 Researcher and Subject Bias

The effects of a researcher's presence on the setting is as inevitable as it is hard to gauge. An example is Van Maanen's study on urban policing (in Open University Research Course, 1972). Although he witnessed cops beat up a suspect, he refused to surrender up his case notes at the subsequent trial. His kudos were however mixed, as the cops subsequently became too hard in his presence, continually beating up suspects on the assumption that that was what he wanted. A good example of subject bias.

Here in the Van Maanen paradox (Van Maanen, 1988), objective observation is impossible and understanding is derived from experience. So how can subject and researcher bias be offset?. To allow for this inescapable bias is the goal of correct confirmability. It is achieved by stressing how the findings of the study could be confirmed by others, i.e. place the evaluation on the data not on the researcher. This can be achieved by asserting the strengths of the qualitative study and meticulously recording the methods and the complexity of the context and any interrelations as they emerge. Notes and research diaries should be kept and made available and they should document design decisions and their rationale. The data should be kept ready for easy retrieval if re-analysis is required, (in Open University Research Course, 1972). The good advice contained in the Open University material was followed in the research.

4.4.6 Language Problems

The fact that the research took place in a foreign country, Germany, just heightens the possibility of methodological problems. One goal of the pilot study was to achieve a foretaste in this area. As mentioned in the section on the pilot study, it threw up some interesting cross-cultural problems. Certainly there is little captured in the literature to date on the problems of communication between West and East Germany. Christoph Hein, the East German novelist, reused George Bernard Shaw's well known slogan that Britain and America are separated by a common language. According to Hein, now East and West Germany experience a similar gulf (Hein, 1992). The pilot study West

German CEO complained about his inability to make potential East German employees understand what he meant by personal initiative, as well as other things.

Actually there is only a small number of words that do not exist in each other's vocabulary - mainly English terms which have crept into West German everyday usage. East Germans are described as using abnormal, unclear sentences in a very tense and stiff manner. The West German rhetoric can best be described as showy. They try to project themselves into the limelight in a manner that comes across as cold and arrogant.

There seems to be an explanation. East Germans always had to compromise between dogma (party line) and what they really wanted. Out of this permanent tension developed very cautious, neutral speech patterns. Today this is viewed as a hindrance, yesterday it was pragmatic. The East Germans use the word 'we' (*wir*) all the time. 'Wir sind das Volk!' The individuality became lost in the totality (and hence the responsibility for results belongs to no one).

The West Germans however were brought up to be individualistic and in career matters highly ambitious. No 'wir sind das Volk!' for them, rather 'I am Volker'. Often it helps to be forward and aggressive to climb the corporate ladder, so one explanation for West German pushiness can be advanced.

Given the appearance that Germans have difficulty understanding one another, then what chance has a foreigner as field researcher? The question can be rearranged as 'what effect has language on the credibility of cross-cultural research?

The most accepted technique in the social sciences for achieving lexical equivalence is the technique of *back translation*. First the original translation is translated into the local language, and then another translator independently translates this translated version back into the original. The original and retranslated versions are compared and discrepancies clarified (Mitchell, 1965). Curiously this problem has been largely posed as one of comparability in *asking questions*, without a concomitant concern for comparability in *listening to responses*.

But back translation can also install a false sense of security in the investigator by demonstrating a spurious lexical equivalence. Language is a cultural artefact, and therefore it must be assumed that the researcher and the researched are immersed in two different cultural and maybe social milieu as will be the case in this field research. A simple example of the spurious equivalence is the English word 'friend' and the German 'Freund'. Is in fact 'ein Freund' a 'friend'? Hardly! For the Germans the term is reserved for a few intimate associates of long standing. The English use the term more liberally including a much broader collection of associates (Deutscher, 1968). More complicated are expressions of degree, which can affect a simple questionnaire scale. An American truck driver may complain to the waitress about his 'warm' beer and 'cold' soup. Implied in the words is the assumption that 'warm' is 50°F plus and 'cold' is 85°F or minus. Anyone who has drunk British beer knows that these standards are relative and vary from nation to nation. A vocabulary then is not just a string of words; immanent within it are societal textures (Mills, 1939). The implication for interviews from language reflecting cultural values is obvious, indeed an interview is a fairly new phenomenon. In prior centuries a meeting with a stranger would have raised insurmountable privacy and security problems. Will East Germans with years of Stasi¹⁴ and local party officialdom interviews behind them, suddenly open up to strangers? The omens are not good. An innocuous questionnaire was sent to the Californian legislature and to the Lower Austrian legislature. 97% of the Americans returned their forms but only 62% of the Austrians (Lerner, 1956), indicating that Germanic people tend to be more suspicious of outside questions than their Anglo-Saxon counterparts.

How can these problems be overcome by a British researcher in the former East Germany?

As the issues being researched were seen as being salient to the East Germans, and this was most definitely the case, then it was possible to cultivate trust and commitment. Secondly, the researcher as a foreigner was seen as 'neutral' and not a threat whereas a West German researcher would probably not have been. Thirdly, the maxim must be *translate accurately not literally*, rephrasing during the interviews is virtually

unavoidable. The target should be to achieve *conceptual equivalence*, (Mills, 1939 quoted in Deutsche). See section 4.4.7 below to see how the actual field work took these points on board.

4.4.7 Data Analysis Issues

For the interviews an unstructured interview schedule was used. An unstructured interview schedule needs differentiating from a semi-structured or structured schedule. The difference is that the list (schedule) contained only topics and keywords, whereas in more structured interviews then whole pre-prepared questions would be on the schedule. The topics and keywords were revisited after each interview to cut out areas receiving no confirmation and add new areas where a pattern of phenomena seemed to be emerging. This is the essence of grounded theory research, (Glaser & Strauss, 1967). Before each session with a new firm, the revised topics and keywords were discussed with an East German social science researcher to ensure that the words were in general usage and would be understood by the interviewees. The results of the field work were initially in the form of cassette tape recordings in German of the interviews, both in-depth and group. These recordings were transcribed by the researcher and this very process of transcribing allowed the data to be rearranged so as to ease the analysis process. The first transcription was from the German dialogue on the tapes to German verbatim on paper. Even here refining took place, as the pilot study showed interviewees (and even the interviewer) do not deliver understandable, full sentences. The process of accurate not literal translation (*conceptual equivalence*) was already under way as these fractional or incomplete sentences were embellished to convey meaning. The German copy was then translated into an English transcript, once again using conceptual as opposed to lexical equivalence. This translation was also undertaken by the researcher, who is bilingual, and proved to be easier than the initial transcribing. Once again an East German social scientist (who speaks fluent English) was used to check the conceptual equivalence of a small sample of the translations.

Modern word processing programs allow the English translation to be easily rearranged into columns where chunks of the replies from different interviews can be laid out

¹⁴ Statsi is an abbreviation for the infamous State Secret Police in East Germany

together. The arrangement of the text can for example put all the answers of one question together or likewise group all references to the constructs of interest, e.g. group Vs individual. This process was used after the initial rough sort had been made with the traditional use of colour coding crayons. The original quasi -verbatim English translation can be given a blank column opposite each question or reply. Certain variables such as the purpose or intent of the questions can then be entered into the blank column. Alternately the description of the type of answer i.e. opinion, fact, rap, feeling, metaphor, metonymy (Valentine & Evans, 1993) etc. can be entered. The sorting against these variables allows what is called a manifest content analysis (Banaka, 1971). Initial results in this research with manifest content analysis did not show many insights but as the technique is mainly for assessing an interviewer's strengths and weaknesses it was abandoned. Blind, independent reviewer, (Isabella, 1990: 13), who would assess if there was any disagreement with the categorisation of the statements at the colour crayon coding stage, were not used.

Field notes were prepared in full from mental and jotted notes from the interviews and were examined for extrinsic influences e.g. the roles the interviewer or interviewee were playing, their agency contract and the physical setting. From the field notes an evaluation of the behaviour in the interview was performed. A feeling for the following questions was thereby developed: How objective or logical was the interviewee? How did the parties interrelate? What were the strengths and weaknesses of the parties?

A final word goes to the topic of triangulation. In the research methodology, the following types of triangulation were used:

- Data triangulation of a comparative nature. The six selected firms were similar but slightly different. The two cases were chosen to be radically different.
- Triangulation of methods. In-depth individual interviews, a focus groups and contrasting case studies were used.

The next section describes how the data were handled and organised in this report.

4.5 Field Data

The data gathered and stored initially on tape, consequently being transcribed, are organised here as quotes supporting or negating a particular theme. The quotes have been chosen not only for provocativeness and relevance but also to serve as a reflection of the general feeling of most interviewees. Once again, no generalisability is expected from data gained in this research.

4.5.1 Job Uncertainty and the Breakdown of Integration and Co-operation

Every one of the 47 people talked to in the data collection phase commented upon, often with great passion and feeling, the new, unpleasant, reality of job insecurity. Obviously the 12 unemployed interviewees had first hand experience, but even those still having employment were almost equally vehement. The levels and distribution of unemployment have been addressed in the Chapter 1, section 1.2. Here we are dealing with people's reaction to these quite alarmingly high levels of unemployment, which have come about solely in the seven years following the reunification of the two Germanys.

4.5.1.i Views of those who had experienced job loss

The views of the unemployed interviewees were, as would be expected, especially bitter. To the general situation of rising unemployment was commented as below:

General rising unemployment

Interview # 31

Paragraph # 49¹⁵. Herr W¹⁶.- The loss of employment was the worst possible misfortune from innermost feelings. A new phenomena as it was totally unknown and nobody was prepared for it. Now there is no other conversation topic than unemployment. We felt lost in the forest. I'm talking about the *Wende* time now or shortly there after. It happened so quickly.

¹⁵ Note that the figure appearing before each quotation is the paragraph number of the relevant interview.

¹⁶ All names have been shortened, as requested, for anonymity.

Interview # 34

17. **Herr S.-** For me too there is a hard side. I had awaited that I would work right up to my retirement in the pleasant circle where I worked and lived. As a rule one could usually work on in the DDR. There was a labour shortage. That was caused by our low level of workers' productivity. Therefore, especially amongst higher level workers, came the question, now will you not work on. There were even by us workaholics. The best example was well over seventy.

In addition to the above descriptions of the fear of unemployment and its causes, there were also comments concerning proposition 1's thesis that rising fear of job loss broke down the old group bonds.

Rising job losses breaks down group ties

Interview # 31

50. **Herr W.-** Yes it's very much this fear of losing the job that has destroyed the 'we' feeling of the work group. And frankly I'd react the same. When a work team get on well then they can be very productive, however when each thinks their job needs protecting then this productivity disappears.

Interview # 33

2. **Dr. E.-** I can say an unequivocal yes to that. We were a collective.

13. **Dr. E. -** However what I've heard out of my circle of relations is different. I hear again and again that their experiences are always a catastrophe. The social intercourse of a collective based work, sticking together, partying together, experiencing successes and losses together, that is gone. Seems like it was never really an integral part of life in the DDR or it wouldn't have disappeared so fast. It may be possible to lay the explanation at the door of money..

Interview # 34

17. Herr S.- The group feeling was much larger. We used to speak about a collective. Obviously there were good collectives and bad ones. When very different personalities came together, people who couldn't stand one another, but that was very infrequent, then there were no firings, changes only took place at one's own wish. I worked in the same area for 45 years, I never had the wish to change. I would have freely stayed on to my pension.

Interview # 35

57. Frau W.- The members of staff who were originally in my department and are still there now, all worked previously in the area. Amongst us little changed although its natural when its public that departmental workers will have to go that somehow or other its not quite so honest and easy between each other. Then one or other tries to obtain a position and its obvious. It was better in this last department where I worked until end '94, better than in other areas.

58. Thomson - But all the same you noticed a difference?

59. Frau W.- Yeah for sure there wasn't the old solidarity

85. Frau W.- And that led naturally to a break in the identification with the firm as everyone asked himself why should I try hard to do something for the firm when tomorrow my job may be redundant.

4.5.1.ii Views of those who are employed towards potential job loss

Even those with employment expressed outright fear of the rise in unemployment and the potential risk to their own jobs.

Interview # 22

98. **Herr P.** - We have a large circle of acquaintances and all those that became unemployed and have problems have from themselves cut off contact. Before unemployment was seen as something unusual, like a plague, something bad although it really isn't. We (ex-DDRs) don't know how to handle it, still cannot today even. It is a scandal really because one thinks one is oneself to blame. In the most cases that isn't true. In the private sphere the contact broke off and the interests are completely different. They have to. At work we try to deal with another sensibly and that makes for a big difference if the work is enjoyable or not. That is all changed now.

Interview # 30

18. **Prof. B.** - What's probably behind what Herr Niedergesaß just said is this unbelievably high level of fear about keeping one's job. That's probably much more typical of East Germans than it would be for workers in an established West German firm like Degussa, Bayer or BASF. Or maybe even for you, the size of the pay off you got from the Allies is something we could only dream about. At the time of the Treuhand if we got anything, and I really can't remember now what the rules were when someone was laid off. If someone were to be made redundant now, and it doesn't matter if you are a shift worker or a middle manager with a normal employment contract, one lives with a certain fear. OK one can have a nice quiet life if one is a civil servant (*Beamter*) but we're not all civil servants and in the private sector one is always faced with this potential misfortune of losing the job. One doesn't need to limit this theme to just our firm, the potential to lose one's job is a general one in East Germany in comparison with say West Germany. Many of the workers here have been in the same employment for 20 or more years, and then suddenly they are standing there with their unemployment application form.

19. **Frau B.** - If I end up standing on the street, then its the end.

20. **Thomson** - Because the rate of unemployment here in East Germany is so high?

21. **Frau B.** - Yes, it's so high.

Similarly to the group of unemployed workers, in addition to the above descriptions of the fear of unemployment and its causes, there were also comments concerning proposition 1's thesis that rising fear of job loss broke down the old group bonds.

Interview # 12

30. **Herr L.** - There are still people here who started in the early 60s and have now experienced the reduction process from 1,200 to 240. Naturally that doesn't just pass over you without some effect. That means that everybody's chair is wobbly right now. And the recession in the building industry has brought about enormous pressure on planning offices. That means by the end of this recession there will be a lot fewer planning offices. And in such a phase the people try and arrange it that at least they keep their job. It doesn't have anything to do with whether I clap my colleague on the shoulder or not. The retreat from collective thinking depends on them thinking when I don't get by now, or I make a mistake then I'm on the job reduction list. This thought is pretty much hammered into the heads of the employees. That's always a problem when one goes from one extreme to another, then the work climate gets really bad.

Interview # 13

14. **Frau H.** - I have to agree that this trend is taking place. We used to have a good teamwork. However at that time the job insecurity was not there and the teamwork functioned well. I perceived the teamwork inside the group as very positive especially in the collective. My work group was between ten and fifteen people and I was the leader. However with the rise of job insecurity the teamwork became weaker. That was because everyone wanted to be in charge of their own area in order to protect their job and therefore they withheld information from the group and naturally that reduced the team work.

Interview # 22

96. **Herr P.** - What first of all occurs to me is that what we talked about at the start, the solidarity in the group. We spend 60-80% of our waking time at work and that's what I enjoyed the most. There were friendships the type of which that don't exist anymore. It was very different then and that forms the major change to how it is now at work. In my private sphere not so much has changed. It depends on who one had contact with before, and who now, and how they have developed their careers, if they made the spring successfully.

Interview # 30

17. **Herr N.** - Now its so that each tries to finish his own work as well as possible, so that he is noticed, positively noticed and there is even a little *Schadenfreude* when someone else makes a mistake.

Interview # 31

51. **Herr W.** - Yes it's very much this fear of losing the job that has destroyed the 'we' feeling of the work group. And frankly I'd react the same. When a work team get on well then they can be very productive, however when each thinks their job needs protecting then this productivity disappears.

Although fear of possible unemployment dominated the thoughts expressed in this area, at least some of the interviewees flagged up other reasons (i to iv below) for the declining importance and influence of the work group.

i. Turnover - The previous extreme stability of the personnel making up work groups is bound to disintegrate as older workers retire, downsizing takes place and new, undreamed of work opportunities surface, e.g. move to West Germany.

Interview # 21

86. **Herr L.**- It was exactly in this time after the *Wende*, my son had studied information sciences. He was thirty one, wanted to stay here in the vicinity but it wasn't possible. He is now in Karlsruhe. My daughter went to technical college and learnt to be a nurse, she also didn't get any work in Halle. She lives now in Paderborn.

Interview # 14

60. **Herr E.** - Purely on the private level, I have two sons and they were exactly over the time of the fall of the wall doing their apprenticeships. One wanted to stop his apprenticeship and emigrate to West Germany. The older one had been to college and said what is there for me here. Both wanted to go to West Germany, and that's just what they did. They utilised the chance in their own ways and it was totally new experiences as we had no relatives, contacts nobody in West Germany. As we worked in the building industry, we assumed that the changes wouldn't affect us so heavily. The building industry was in demand as opposed to chemicals, coal and agriculture. Now its the same for us.

ii. Generation Change - The rise in the employers' desire to employ younger people tends to break down the stable group structures.

Interview # 12

30. **Herr L.** -That's definitely more so for the older workers than the younger ones. Look at the students or new graduates, they have a completely different approach. They don't spend so much time weighing up the consequences. They don't have any problems. An engineer in West Germany can utilise his education and training possibilities and work there, and he will know all the rules of the game. People from the East are always asking themselves how should I react, or act. West Germans never knew anything else, were always in a market system and so are not plagued with self doubt. This is for sure a generation problem.

Interview # 35

34. **Herr S.**-The people who worked with me both above and below knew each other for years. We were a stable group and because of that there developed personal relationships of a quite different kind.

iii. The financial state of the firm.

Interview # 12

30. **Herr L.** -Firstly the climate in the firm depends on the financial results the firm is enjoying.

iv. Technology - It was noted at the start of this chapter that technical influences on the group and individual would be put to one side. The reason for this is that the six firms where interviews took place had relatively similar levels of capital intensity, (an exception must be made for the large utility firm in the sample). Based on this observation it was assumed that changes in technology would be similar amongst the firms sampled and therefore would not lead to technically caused differences in perceptions.

However even if the firms were tending to move together in the application of new technologies, e.g. data processing, these new technologies did cause job losses and "Ludite" type fears of unemployment. The emphasis here is on the technology itself forcing more individual work and causing groups to become less important. It must be mentioned however that technology can depend on teamwork.

Interview # 12

14. Herr R. -...actually it's kind of interesting, the technology drives the teamwork here in the fact that if you're working on the machine there's three men on a machine, then you're almost forced to be a good group, and they are a good group, they do work well together. The machines can be up to 300 metres long, right, so if one of them isn't working correctly then the other two have to go like hell, right? So in fact the team work is still pretty good here and its probably been driven by the fact that the technology, the machines in place are driving it, right? ...and if you notice on the machine that something's not going very well, then they'll jump across and assist.

The need for teamwork on assembly line operations is obvious, however in other areas the move towards more individual work was in full swing.

Interview # 23

45. Frau A. - The volume yes, but also the way the work is organised. By IAB¹⁷ we used to have technical drafters, we used to pencil in a sketch and the technical drafters used to finish it off. I can still do technical drafting, so that when I now need a drawing *I do it myself*¹⁸. That means that now I make a draft plan on the computer, or none at all depending on the level of knowledge involved. *I don't need anyone else to help me.* It is also required from me, that when the operator of the plotting machine is away, that I print out my own prints. That is for sure not too good, because too many people working on a technical machine can soon screw it up.

4.5.1.iii Uncertainty and Networks

Many of the interviewees also commented upon the counter productive results of job retention fear shown in the increasing reluctance of employees to share their information and projects with other members of their work group. This increasing level of secrecy, mistrust and isolation from each other is leading to a break down of formerly well-functioning, productive work groups. Even out with of the firm, the breakdown of co-operation has had consequences as the following quotation highlights.

¹⁷IAB is a former abbreviation for the old combine

¹⁸ Highlighting added by author.

Interview # 14

22. **Herr E.** -The group had the advantage that in certain areas one didn't have to become an expert yourself. One would fall back on others, someone was questioned, he was willing to supply information, he didn't write out a bill for the information. That was the group exchange which is missing now. One had contacts in other firms, one called up as one knew he had some knowledge in this area, and one got back information with a fax and without being charged. That cost money today. Its a current problem for us here in this firm as we have such a wide product group that all the specialist areas cannot be covered, we need to keep strictly to regulations from excavations to antennas and keep up to date. That's the problem. One has to have membership in many organisations so that one can get quickly specialist information. To pay for it or to take it is always the decision, but its even so still expensive.

23. **Thomson** - Its interesting that you previously had an unofficial network of contacts which has now been broken off. Now you have an official network, but you have to pay for it.

24. **Herr E.** - We were forced to build up such networks because we were not able to obtain all the journals containing information as there wasn't enough money available. The combines had a central place, the research department and using research as the basis for the request, one could get access to western literature. There was a foreign exchange fund and one could use this fund to buy literature up to a certain limit. Then the literature was distributed and there was a very thorough register of who obtained which literature, which firm and then the firms could do an exchange. This system existed for a long time and one got used to it and many people here in our firm try to re-use this system.

The above quotation highlights that in the old DDR there was a well-established, flourishing network of contacts, who supplied each other on a *quid pro quo* basis with information, material goods and spare parts. These networks covered industries and were based on the fact that, seeing all firms belonged to the state, any information given to another firm could not be seen as giving away a competitive advantage. Additionally, due to the general scarcity of everything, including technical knowledge, networks were essential for the manager in a combine to survive.

In the same way personal networks oiled the daily fight against shortages and mismatches of supply and demand. An example of this is given by Prof. B.

Interview # 30

1. Prof. B. - the group had in my opinion in DDR times a completely different meaning which I talked about before. In a well functioning group with a good level of harmony, there was also personal dependence. I can use as an example: Herr Becker borrows from Klaus Großmann a clutch for his car, and then never gave it him back. Becker wasn't mad about this, because in a well functioning group there was a solidarity and helpfulness which spread across the work into the personal area, a phenomena which in my opinion was extremely well developed in the DDR.

All-in -all there seems to total agreement amongst every single person interviewed, that there are immense pressures stemming from rising unemployment which give rise to fears about the loss of one's own job, even if other factors were acknowledged.

4.5.2 Perceived Lack of Initiative

Harry Maier in his analysis of the feeble DDR ability to show initiative and be innovative noted "The socialistic production machine discouraged radical innovation like the devil discourages decent living. Firstly because of the risk of failure, whereby painful sanctions could be expected from the centre. Secondly, even if the innovations were successful, then the result would be a higher plan goal in the coming year, which would be that much harder to achieve", (Maier, 1993: 806-818). A third reason depends upon the cohesiveness and stability of the group in the DDR.

One of the reasons constantly referred to by ex-mangers in combines was the lack of differentiation in pay. For instance Prof. B. (an ex-Director in a combine) was quite outspoken on this issue:

Tricat Interview # 30

1. Prof. B.-..... The fact that possibilities for advancement in the Kombinat were limited, reduced the personal ambitions. This was so because in the DDR there were few people who were prepared to take on more responsibility and work which was never properly rewarded, at least up to a certain level. The position of General Director was naturally attractive but positions in the middle of the hierarchy were in general unattractive. And I'll say it quite openly, when you found one dumb enough to take on the function of group leader, regardless of how the group is defined from 5-6 up to 20-25 employees, then there was really no motivation to use your elbows in trying to out do others in the group or other groups. My memories of our times in the DDR are only an unbelievable solidarity and harmony within the group, be it to do with work or help with personal matters.

2. Prof. B. (cont.)- The lack of motivation to strive for a management position is another problem. The main cause being that one took on only trouble and this trouble wasn't smoothed by higher pay.

In addition to pay differentiation, there was also the factor that it was almost impossible to get fired in the DDR. This led to all kinds of lazy and problem workers keeping their jobs, with the concomitant demotivation of other work group members who had to cover for them.

Interview # 21

40. Herr L.- Today the climate is harder, the work pressure is harder, it wasn't so before. Before there was the right to work, so that nobody was fired. The biggest layabouts and drinkers were not kicked out. Sure that is something negative but it had a positive aspect in so far as one didn't need to worry about keeping one's job. That doesn't exist any more.

That groups did look after the weaker members and covered for mistakes is borne out by the following quote:

Interview # 13

16. **Frau H.** - When mistakes were made, then whoever made the mistake must own up. And there was always enough team spirit in the group to take care of the mistake. There were certain disciplinary possibilities in DDR times but they were only utilised when it was a large mistake and that usually depended on the person involved.

The hardest criticism of East German lack of initiative came from the West German Managing Director of firm E.

Interview #1

96. **Dr. K.** - Well we actually went there and explained how it was done in West Germany. If we came to the opinion that the man was OK then we hired him. Which leads me to an example of self-reliance. When I hire somebody in West Germany, I might say good, tomorrow you start there. I don't start thinking about whether he will be there or not, or how he will get there. For me the situation is clear. Then often I get a telephone call at the starting time "where must I go? How do I get there?"

97. **Thomson** - Wasn't it made clear at the start, whether they needed their own car?

98. **Dr. K.** - Who had a car at this time?

99. **Thomson** - Then how did you think it could work?

100. **Dr K.** - We even did such things at the start as buying train tickets for the people. OK that was right at the start. Somehow or other they got here. But what is for us a matter of course, was for them a great adventure. From Mecklenberg, 2 hours in the car, now please! Another thing that I had to learn was that in the DDR many women had jobs, often single mothers with children. So when I organise training here and send the people from farm to farm, I don't overtax my brain in worrying how the people will organise their private lives to ensure the children are cared for. Often I hear from single mothers with two kids in the East, "now how can I travel there? What can I do about the children?"

A more neutral viewpoint on East German employees' lack of initiative would be expected from an ex-DDR citizen who now works in West Germany but previously held an important position in the East.

Interview #2

54. **Thomson** - Would it be right if I were to describe the attitude here in the West as that each employee was expected to use their own initiative, in other words to say listen there is a problem, I need to speak to someone, whereas in the East it wasn't so.

55. **Herr S.** - Yes, that's right. You always had to say what's to be done. If you didn't nothing would get done. You always had to clearly give instructions because if you didn't... The ability to work on one's own, initiate was always missing and anyway it was often impossible alone to change anything.

4.5.3 East German Perceived Lack of Personal Responsibility

Relatively similar criticism to the perceived lack of initiative was to be heard from non-East Germans about taking responsibility for decisions and actions. Once again the hardest words came from the West German MD.

Interview #1

62. **Dr. K.** -..... The second point is constantly recurring. Often I observe that East German workers feel themselves to be part of a collective, a group, and that group is anonymous. A group also has the advantage, in inverted commas, that if responsibility is to be allocated it is never a personal responsibility. The term 'we' is not a personal pronoun. That's what is often missing - personal responsibility. Not from everyone, but many. many find it difficult to reflect on things that go wrong and to say, yes I did it. That's difficult for many, also for many in the West.

63. **Thomson** - Would you call this individualism? I would expect West Germans to feel surer in personal work whereas the East Germans tend towards group work while they are used to it.

64. **Dr. K.** - They are used to the collective life with two values: The one is the group, then there is a barrier on the other side, the personal life. That is not so now a days and to understand it is not very easy, that means for example, as I've often seen in management, when I'm the manager I represent both myself and also my workers, but I notice now and again in East Germany when pressure comes from above, then they move to the side and say, let it go through.

Just as with questions on initiative, the ex-DDR manager now in the West, who incidentally worked directly for Dr. K., gave an interesting and more measured response. He mentions the difficulty faced by people from East Germany when confronted with the extremely hard confrontations which seem to be part and parcel of taking responsibility in a West German setting.

Interview #2

45. Herr S. - I must admit I have problems here. I'm sure in my dealings outside the firm with breeders, that I am pretty goal orientated and can put my point of view over. Here inside the firm I sometimes have problems, for instance when discussions take place then I take them too personally, that's my problem. It wasn't a problem before in the East where the behaviour in contact was somewhat different. Although Herr Sa. and Dr. K. emphasise that I shouldn't see it personally but look at the factual background, the effect on one is often frustrating.

46. Thomson - Of course it has a personal effect when one hears de-humanising things. When I go into a West German firm, I notice a certain coolness and rationality. I don't mean that as a critic its just the way I feel it and I'm sure its easy to understand it as a personal affront or critic.

47. Herr S. - It can surely be traced back to my background that as an Ossi we have problems dealing with the West Germans or people from the West.

Naturally, the East German employees saw things somewhat differently than the western managers. However even amongst them, a tendency to hide in the group was subtly expressed especially by those that held managerial positions, where they had to supervise and deal with the results of a lack of personal responsibility.

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Interview #20

31. **Thomson** - That must result in these lower managers having to take responsibility whereby they were not used to that in the past?

32. **Herr F.** - Yes, that's a hot theme. Its not too easy to convert the people to accepting more responsibility. That's a problem which I am aware of, what the new organisation structure has made very visible. Before any problems were shunted up the way, but even I had problems in solving them as the then structure forced the involvement of the General Director. Today all have the possibility of making their own decisions and carrying their own responsibility within certain borders. They can make decisions about financing, they can make personnel decisions, the main thing is that they do it. Many of them duck this new responsibility and still keep looking for answers from above. That's a problem where in some areas it's well done and in others the people need to consult more and take their own decisions. I feel we need to move more in this direction of more personal responsibility for decision taking. That's true right down to the workers' level. The worker who today sits at his computer and doesn't understand this is in the wrong place. They are all employees of this firm and must be integrated into the sales process. Before sales was never a theme because everything was supported by the state. Now every employee needs to pull their weight, that's difficult to hammer into some heads.

Sometimes the lack of responsibility came about because of the way jobs were organised and the lack of commercial pressure.

Interview #22

30. **Herr P.** - No the freedom of action within my area, the responsibility is still the same. The responsibility for the procurement contracts in my projects is something new and didn't exist in DDR times. There were prices for bits of the plant but they were steered in another way. they weren't steered financially but were controlled through balances. There was a fictive figure at the start of the project and when new costs occurred this figure was simply raised. Its difficult to imagine but that's what happened. There was no problem involved in raising a projects cost from 15 to 16 million so long as it balanced and there were reasons. But returning to the responsibility, I had just as much authority as I do now.

31. Thomson - I meant freedom in taking decisions in comparison to now.

32. Herr P. - For me only a little during 1989 and 1990 until I transferred to Firm P.. Before when I worked as chief engineer (something similar to project leader), I had much less authority than now. Project leaders now work with much more personal initiative than was the case in the DDR. For instance Herr L. (also interviewed) had the same job in both areas, he was chief engineer and now project leader, basically the same.

The previously mentioned Herr L. also brought up the subject of more responsibility because of commercial pressures but also mentioned the ever present political interference that ensured responsibility and decision taking were channelled up the organisational hierarchy.

Interview #21

26. Herr L. - ...The main point was that the Director of the firm, didn't have free hand there were two other institutions in the game, the party and the trade union. A MD didn't have the position authority he does today. The second thing is that before the question of costs never was very important, the deadlines were important, the costs were of secondary importance. Officially the costs were supposed to be minimised, but in reality they always landed in the second position. Because of that much took place on parallel tracks and there was much inefficient work. A third difference was that the employees didn't have to work so efficiently as they do today. That showed in the inflated number of employees. In our branch of the firm we had 400 employees and now we are approx. 45. Sure the amount of work is different but its not that different, its about the same.

4.6 Analysis & Discussion of Results

Though managers and workers differed in their assessment of the gravity of assumptions 2 and 3, there was no lack of agreement about assumption 1: *The higher the feeling of job insecurity, the lower the level of group cohesiveness.*

Examples abound, many quoted above, about the pressure to look after *number one* in a firm having faced and still facing radical downsizing. This phenomenon can be seen as

a major handicap to change and integration for two reasons. Firstly the breakdown of the group and increasing isolation of individuals in the organisation is not a fertile breeding ground for introducing long term change. Values become accepted at the work place, when the majority, or enough leading members, of the work force internalise them. This internalisation and acceptance process is eased when group pressure and dynamics parallels and supports the introduction of the new work values. An example will suffice. The US President of the chemical firm "F" complained that his employees involved with R&D were slow to see the need for, never mind actually achieving, the move to a customer demand driven R&D program. These same R&D workers were however heavily critical of the increasing dog-eat-dog and unfriendly tone which now prevented the flow of information in the research teams. It never occurred to either side to discuss these perceptions. Unfortunately so, because if the group had continued to function well, then the possibility of the group as a totality internalising the new customer orientation would have been much higher.

The second handicap of rising individualism and declining communitarianism is its effect upon learning, a subject area which will be greatly expanded in Chapter 5. Suffice it to say that organisational learning occurs when groups of people give the same response to different stimuli, (Weick, 1991). This occurs through the development of routines within the group (Nelson & Winter, 1982). If the group disintegrates, the routines go with it and organisational learning becomes more difficult.

There is however a counter argument which needs assessing. Sometimes through poor management of the post-take-over phase, the move to increasing individualisation can be countered by a feeling of solidarity against new practices. This group solidarity sees the group acting as a retainer of prior thinking and as such forms a hindrance to new ways of thinking and techniques. The group in the R&D department of Firm "F" seemed to have become active in blocking change, due to their feeling of alienation from the new US management and its goals. The R&D group here retreated back to the "safety" of their old chummy relationships, working practices, output norms and applicable science and technology. In such cases where group solidarity is actively hindering change, then reductions in group cohesiveness could be argued to be beneficial for the firm's survival.

The argument can be linked back to the more general question of whether acceptance of radical change is easier to achieve when attitudes are unfrozen or when stability forms a solid base for acceptance. Job security fears can be argued to have moved individual employees out of their comfort zones to where they are willing to accept radical change. On the other hand is change introduced under the duress of potential job loss, a long lasting and internalised change?

Observations from the more successful sample firms, C & D, support the view that it is possible to achieve the benefits of unfreezing sterile, inflexible attitudes (Lewin, 1947) through job uncertainty, but also to achieve acceptance of change by having the change internalised as a norm within the still functioning group.

The two patterns of behaviour (assumptions 2 & 3) which emerged from the literature review are to an extent inter-linked. Personal responsibility for decisions taken and the initiative involved in actually taking them clearly affect one another. If an employee is worried about the consequences of a wrong decision, they may well:

- a. Never take a decision (i.e. show no initiative).
- b. Take decisions but then hide in the group (i.e. show no personal responsibility).

Both options are counterproductive for the firm but both were supported by information gathered in the interviews, albeit the prevalence and severity of these issues were seen as much higher by top management and especially foreign top management.

It needs stressing again, that Frese et al, 1996 found an appreciable lower level of personal initiative in East as opposed to West Germany. The findings of this research's interviews and Frese's seem to coincide. Although there are some pretty strong historical reasons for low initiative and personal responsibility in East Germany, e.g. low pay differentials, school system, no-firing job policies, communist inspired top-down communications and decision making, intolerance of maverick behaviour, just knowing these causes does not help the new managers in East German M&As.

These managers need to know whether and how they can change behaviour in the initiative and responsibility areas. If the traits are now so well established that they are inborn and self-producing, i.e. Schneider's nature, then it will be extremely hard to change them. Conversely if they have only been acquired during the reign of totalitarianism (nurture), then they may be easier to alter. The results from Frese et al supported nurture, therefore the task for M&A managers may not be insuperable. Given then that the counter-productive behaviour in the fields of responsibility and initiative can probably be changed, how is this then achieved?

Change management literature as discussed in Chapter 3, section 2.1 is rich in tried and tested western originating advice. As Spender, 1992 noted, maybe these western developed programs will be ineffective in an East European setting. This researcher partially supports this view.

On the one hand M&A managers in East Germany can develop incentive schemes, payment plans and review procedures which support the move to individualisation, as all these initiatives are individually based. This is quite easily done, but is no panacea. We will see in the discussion of the failed M&A (Chapter 5, section 5.2), that just such schemes were introduced but with little success. A counter scenario can be developed, where the existing (although decreasing) strength of the work group could be engaged as an engine of change towards more initiative and responsibility. Many western firms have been switching in the 1990s towards team, as opposed to individual, goals and hence incentive reimbursements. A discussion of the pros and cons of collectivism or individualism took place in above in this chapter and is summarised in Tables 4-4 and 4-5. We see from this discussion and Schacter's theoretical contribution that with good leadership, a highly cohesive group can achieve the best levels of productivity gains. The advice therefore to M&A managers in East Germany trying to break down the barriers of low initiative and responsibility could be to revisit the group. They could design group incentives and harness group dynamics to be the engine of change. Too often however the response of managers to lack of initiative is to "tighten the ropes", (Frese et al, 1996: 56) with more controls, thus provoking a vicious cycle of more control, more robot like compliance, even lower initiative.

A final point is necessary. In most firms the need for initiative and personal responsibility varies by job function. Sales representatives, for instance, are on their own, off the firm's premises and probably need high individual motivation which will reflect on their initiative and responsibility. This point was very forcibly made by the sales managers in Firm E. Shift production workers however depend on each other, have very structured jobs with rules and regulations for safety and quality reasons. Here individual incentives seem to be a move in the wrong direction. Such workers were well represented in firms A, B and D

4.7 Conclusions and Onward Link

The unsettling influence of job insecurity has had, in the majority of M&As visited, a knock-on effect on group cohesiveness. The rising individualism in the work place is accompanied by a counter efficient trend in not sharing work, results and information. Whether the demise of the group and the rise of individualism is beneficial for the acceptance of radical change is not proven. Certainly, with the exception of firm "F", the continuation of good intra-group relationships and cohesiveness seemed to be helping the acceptance and internalisation of radical change.

The field data reported in this chapter support, to a limited extent, the widely held views about deficits in the East German stock of human resources. Based on the perception of upper level managers, the East German average employee brings comparatively too little initiative and personal responsibility to the job. This perception is borne out by academic studies e.g. Frese et al, 1996. The situation appears increasingly bleaker as existing group cohesiveness is breaking down under the pressure of high unemployment and accelerating job insecurity.

The potential for the future is not, however, all black. Firstly, the need for initiative and responsibility varies by job and is not a necessity for all employees. Secondly, rising individualism may be the forerunner of increasing individual initiative and

responsibility. Finally, the remaining group solidarity can be harnessed by excellent management to facilitate change.

In summary there is a tension between the increasing individualism and remaining communitarism. It is management's job to steer a strategic course through just such dilemmas (Hampden-Turner, 1990), benefiting from the dynamism of the inevitable tensions. Given the correct choices there is the possibility of a rosy future. Another step towards coming up with a strategy to overcome barriers to integration and change will be the subject matter of Chapter 5. The tension between individual and group investigated here, influences the key success variable of learning, as we will soon find out.

Chapter 5 - Two-Way Learning

5.1 Chapter Overview

Chapter 5 is of necessity by far the longest chapter in this thesis. The over-proportional length is due to it consisting of three recent publications and being organised, as was Chapter 4, along the lines of a journal article. Therefore literature and methodology sections are presented, followed by results, discussion and conclusions.

As early as the introduction in Chapter 1, it was pointed out that the subject matter of this dissertation straddles at least four schools of academia - strategic management, organisational behaviour, mergers & acquisitions (M&As) and Central and Eastern Europe transformation. In our discussion of the individual Vs. the group in Chapter 4, the main literature basis was drawn from the field of organisational behaviour. In contrast it is the overarching theme of strategic fit from the strategic management literature (reviewed in 5.2) which predominantly forms the link to this chapter's subject matter of two-way learning. Within the concept of strategic fit, the congruence between a M&A's strategy and resources and its business environment, is useful. We have already seen in Chapter 4 that the human resource qualities inherited with the East German M&A were not optimum to fit the new needs of a market economy. However the potential was there to acquire new skills and thought processes. It is the ability to change skills and attitudes which this chapter addresses.

The context of this chapter is set by reviewing in more detail than in Chapter 3, relevant theories from the literature in the areas of: strategic management, change management, Mergers & Acquisitions plus the new subject of learning.

In East German M&As there are certain barriers to enhancing these work force skills and attitudes and hence easing integration and learning. One barrier which was investigated can be summed up by the proposition: *the dominant culture always wins*. If the new western owners and managers were to be viewed in a hostile light because their culture was imposed, then change may be hindered. The same would be true if the East Germans were to be treated as simpletons. The above proposition is supported in

5.3 by three working assumptions which are investigated using data collection techniques explained in 5.4.

Two cases were extended using the existing interviews, but revisiting the firms to gain artefacts, history, internal documents etc. One firm (discussed in 5.5.1) was deemed to be successful. It was seen as fostering a climate for two-way learning. The other (in 5.5.2) was at the opposite extreme and in fact failed. Material contained in three recent publications, one by the author the other two joint papers, are then applied in 5.6 to try and address the working proposition: *the dominant culture always wins*. These publications had as their base the field data as summarised in the appendix and Table 4-12. The subject area of acculturation is introduced and examined by using a model (Figure 5-7) which measures acculturative stress. The original acculturative stress model is extended in 5.7 to investigate implications for two-way learning. The most unexpected and therefore most interesting finding of the papers was the emergence of patterns which implicated a link between acculturation and two-way learning. Two-way learning is an important variable, because it can be critical in reducing barriers to change and integration and also can be used to develop competencies giving competitive advantage. The discussion of the results of the literature, papers and contrasting cases takes place in 5.8 throwing light onto the subject matter of two-way learning with or without a dominant culture. Here the three assumptions of 5.3 are revisited. The chapter closes with conclusions and onward link to the summary chapter, where amongst other things the testing out of the extended model is suggested.

5.2 Setting the Context

The *context* of the research was a country experiencing revolutionary change with existing networks breaking down and becoming irrelevant on a daily basis. This fits into the change management concept of breakpoints as opposed to turning points, see Figure 5-2 (Strebel, 1994). So with change breaking in a revolutionary fashion all around the East German firms, the internal strand of strategy literature provides some shelter. The internal resources of the firm are a given factor and according to the Resource Based View of the firm by coopting these resources a firm can identify its core competencies and exploit them to competitive advantage. These core competencies may well be in the area of knowledge and learning and it this area that emerges as a fruitful

research subject. Institutional theory may or may not apply in the new M&As, dependent upon whether or not the western ideas and structures are accepted by the existing workforce. This is reflected in the chapter's working proposition: *the dominant culture always wins*. This proposition will be investigated in the remainder of the chapter, but suffice it to say that one further influence from the literature plays a role here. As we move into the case studies, the importance of the existence of an agency problem and attempts to overcome such a problem becomes very relevant.

5.2.1 Strategic Management Literature

Specific strategic management literature plus similar material from three other schools is examined in the remaining sections of 5.2. Specific means here, as opposed to the general literature introduction of Chapter 3, that we concentrate on literature which delves into the relationship between the employees (the M&A's human resources and competencies), the new environment and competitive advantage.

The general discussion of resource management literature in Chapter 3 ended with a statement about the theoretical starting point of this research - 'As far as the internal context is concerned, the anti-Porter views of Stopford and Baden-Fuller, 1992, that the firm matters, not the industry are the theoretical starting point for the research. That the firm matters can be explained by the resource based view of the firm', (RBV).

Continuing on out of the RBV theory starting blocks, the main thrust of the thesis can be summarised somewhat negatively as: A valuable potential of human resources was acquired along with the East German firm, if these people, their talents and other inherent attributes they possessed were ignored, or not fully utilised, then a strategic blunder has occurred.

A closer look at resources and particularly human resources is therefore necessary. "Looking at economic units in terms of their resource endowments has a long tradition in economics. The analysis is typically confined, however, to categories such as labour, capital and perhaps land. The idea of looking at firms as a broader set of resources goes back to Penrose, 1959", (Wernefelt, 1984: 171). A firm's resources can be defined as those (tangible and intangible) assets which are tied semi-permanently to the firm,

(Caves, 1980; Wernerfelt, 1984). “Examples of resources are: brand names; in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures, capital etc.” (Wernerfelt, 1984: 172). Thus the traditional view of resources as comprising of land, labour, capital and entrepreneurship is expanded far into intangible areas. Each firm has different bundles or batches of such resources. “Firms can be seen as possessing heterogeneous asset bases (resource endowments)”, Connor, 1991: 139. These resources can endow competitive advantage. Rumelt defines a firm’s competitive position as depending on a bundle of unique resources and relationships, (Rumelt, 1974: 557). “Just having a bundle of resources is neither necessary nor sufficient for success”, (Baden-Fuller & Stopford, 1994: 43), many well endowed firms find it difficult to exploit their resource bases, (Grant, 1991). Rumelt adds that “the task of general management is to adjust and renew these resources and relationships as time, competition and change erode their value”, (Rumelt, 1974: 557).

Adjusting and renewing are dynamic not static activities and it is this way that an organisation uses, supplements and upgrades its resources, a process which builds competitive advantage, (Hamel & Prahalad, 1990). These authors call the roots of competitive advantage, core competencies, which they go on to define as collective learning. It is the link between the acquired East German employees and the idea of collective learning which forms an underlying thread throughout this chapter.

5.2.2 Change Management Literature

The area of change management is one of the more developed topic areas discussed in this chapter, with regard to theory. Before launching into a review of the various theories, an explanation of the relevance of change management to the research may be worthwhile.

The newly acquired East German subsidiaries *had* to change quickly or cease to exist. The reasons were discussed and listed in 1.1.2. The first reason was the sudden arrival of competition from the West. With the disappearance of the inner German border, all East German consumers were able to, and indeed did, fulfil their needs through purchases from western firms. Without a swift and revolutionary change to efficient

performance and a market dictated output, then the whole of East German industry could easily have disappeared. The need for quick change was thus omnipresent, unfortunately this seems not to have eased the transition.

How then did existing theories of change stand up to the fall of communism? It needs saying right up front that the literature and theories of change management have all been developed in the western, capitalist world. This ethnocentricity of thought may be a weakness as theory was developed using a mindset, and assuming a mindset, fundamentally different from that which had emerged under communism. The theme of western dominated theory was discussed and further developed under the cross-cultural research heading of 3.4 and also in 3.7.

Many of the views expressed in the change management theories seem at first glance to be divergent, indeed Gersick, 1991 argues that underpinning heterogeneous paradigms cause such diversity. However some commonality exists. Firstly many of the theories are known by their countervailing extremes: Evolutionary or revolutionary, inertia or stress, top-down or bottom-up, imposed or negotiated etc. That the theories highlight extremes on a spectrum introduces the second commonality, that a tension exists between the extremities. Indeed it is this tension which, if properly exploited, can form the basis of acceptance of change.

The first continuum of change pressure to be examined is whether change slowly *evolves* (Grinyer & Spender, 1979, Miller & Friesen, 1980, Nelson & Winter, 1982), or *explodes* onto the scene as a revolutionary transformation via catastrophe theory (Bigelow, 1982). According to Grinyer & McKiernan, 1990 the 'slow change' models (Clarke & Stanley, 1988) have as parents Cyert & March's seminal work on the behavioural theory of the firm (1963), which itself incorporated detailed thought on bureaucracies from Max Weber, (1924). Bureaucracies are damned as being unable to adapt to a changing environment because of historically determined structures and power distribution. The belittling of bureaucracies is somewhat unfair because in mature markets, mechanistic (Burns & Stalker, 1961) or machine (Mintzberg, 1983) bureaucracies can operate efficiently. Not only inherent structures and power distribution exert pressure to remain with the status quo, there has usually been a

substantial investment in human and financial capital, as would be expected from the resource based view of the firm, (Penrose, 1959), which is unlikely to be easily sacrificed. The pressure for change, often visible in the relative decline of the firm, is present to some extent in all organisations (Slatter, 1984: 61). Some firms are *proactive* and by a series of complementary, sequential small changes or logical incrementalism, (Quinn, 1978) are able to avoid a full blown crisis. Other firms wait too long and thus have to be *reactive* to the crisis when it arrives.

A second body of change management literature which also very visibly incorporates the idea of pressure between extremes is the interaction of stress and inertia (Huff, Huff & Thomas, 1992). Inertia encompasses personal commitments, financial investments and institutional mechanisms supporting the current way of doing things. Stress arises between a mismatch between the demands/opportunities facing the organisation and current strategies. The environment may change through new methods (Van der Ven, 1986), new entrants (Porter, 1980) or new employees (Clark, 1970). All lead to dissatisfaction with the misplaced current strategy, i.e. stress (Chandler, 1962).

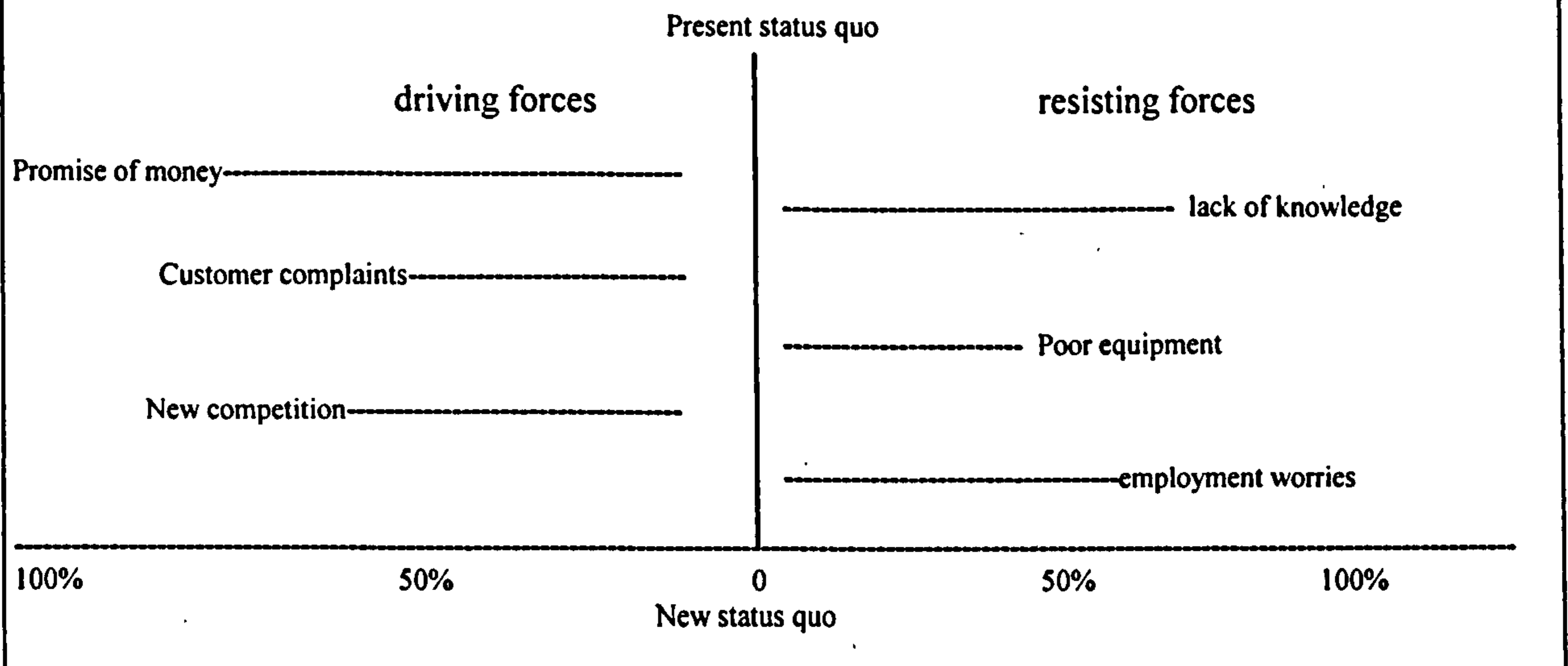
Surely it would be easy for management to switch the strategy and dissipate the stress? Unfortunately, management identifies with their past successes which become incorporated in the current strategy. They become committed to 'their' strategy (Ghemawat, 1991) and focus even more narrowly on a single theme, activity or issue at the expense of all others (Miller, 1993). The idea that organisations lapse into decline precisely because they have developed too sharp an edge is what Miller calls *simplicity*. The link between Miller's simplicity and inertia is obvious although Miller cautions about the following difference. Even though inertia is identifiable by resistance to change (Hannon & Freeman, 1984), the structures, process and systems causing inertia need not be simple and can be complex, (Miller, 1993). Regardless of the semantic quibbling, the fact remains that there is a tension between the changing environment and the inertia or simplicity of an organisation's response. Tension can be diagrammatically represented in force field analysis framework (Lewin, 1947), see Figure 5-1.

Lewin's force field analysis framework is a split diagram with the pro and contra change forces on the left and right sides respectively.

* Source: Lewin, 1947

Figure 5-1

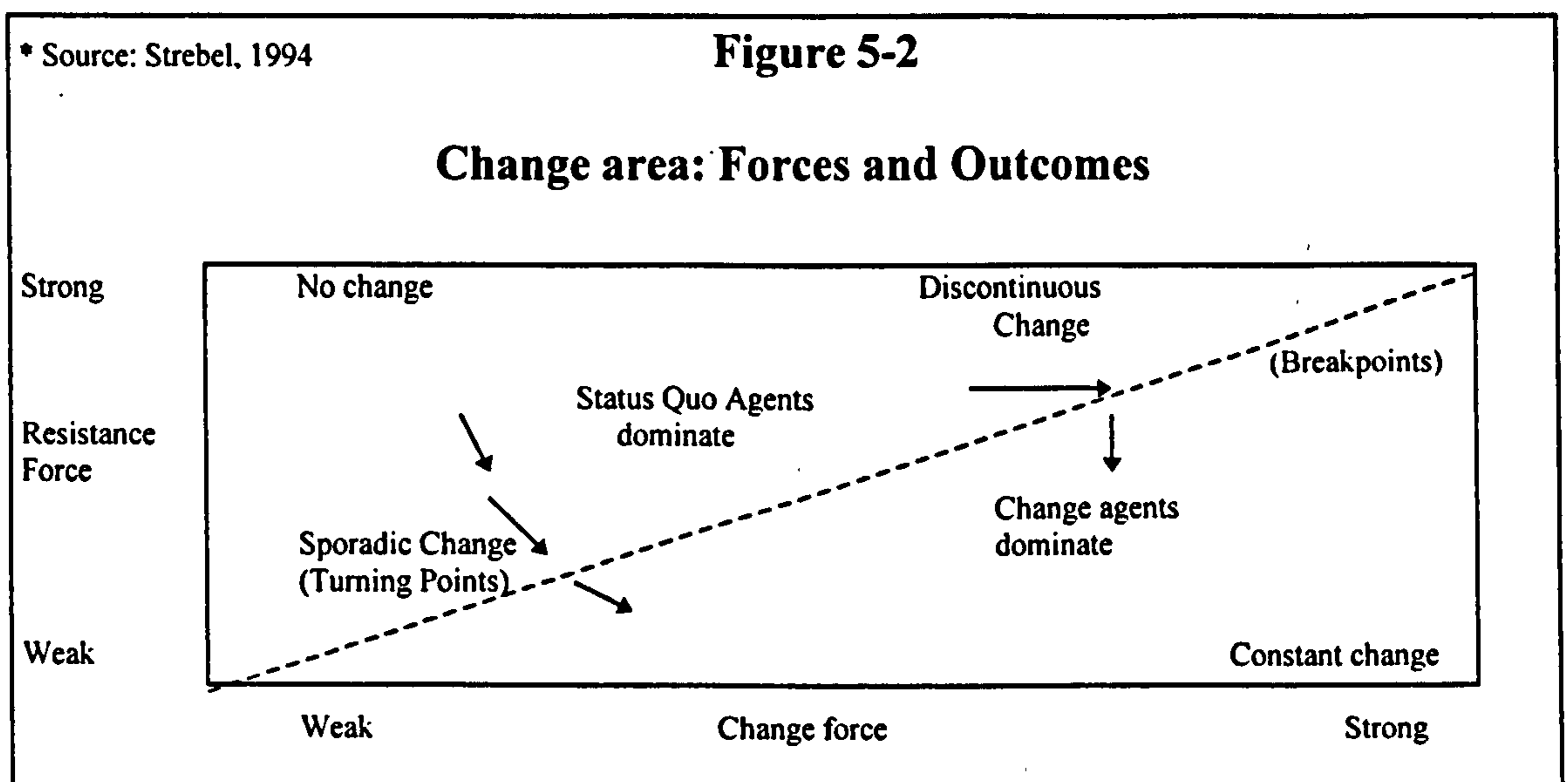
Force Field Analysis Framework



Managers trying to effect change would well be advise to concentrate at first on reducing or neutralising the largest (longest) resistance force. Once there is no equilibrium between the opposing forces, then change will occur, just like supply and demand forces in the market place guide price back to the equilibrium market price in classical micro-economics.

Here the opposing pressures of driving forces and resistant forces interact and produce (dependent upon their intensities) the possibility of four outcomes (Strebel, 1994): the 4Rs, resistance, renewal, revitalisation & restructuring. Strebel's model incorporates the main points from the literature but is especially useful as it is based on tension in the change area (force field), an idea used in the research and shown as Figure 5-2.

Figure 5-2 shows what is going on inside the change area with resistance to change on the 'Y' axis and the force of change on the 'X' axis.



It is constructive to view and analyse research issues e.g. two-way learning and group Vs. individual, as change areas like that shown above. When the tension between the extremes becomes too great, either a breakpoint or a turning point will be passed.

A further body of change management literature continues in a similar vein the idea of opposing variables in this case the trade off between *stability* and *change*. There is a wide difference in academic opinion as to the necessity of stability as the launching pad for change. This is not surprising as it has been proven that when a suggestion to change is broached usually 80% of the replies focus on the negative (what has to be given up) and only 20% of the replies mention the reverse, opportunities (Clarke, 1994: 75). This reaction is to be expected as people know what they must give up but do not know what the future holds. Therefore it is perfectly logical, indeed almost a law, that change at first introduction will not be enthusiastically embraced. People who feel unsafe, retrench at least initially (Fink, Beak & Taddeo, quoted in Clarke, 1994). It should be borne in mind that East German society has experienced revolutionary changes in the last seven years, hence it is to be expected that employees within East German society will be busy retrenching.

Others argue that change requires stability (Kanter, 1983: 122) "change also requires a measure of security and an understanding that the flow of resources will continue and that some areas will work without much attention, allowing energy and attention to be

directed towards the change effort. When everything is highly uncertain its difficult to believe in change".

It therefore appears that some workers need stability at work to adapt to social change and prepare for different work practices. Other workers freed of old commitments by societal changes are ready to grasp new work practices as nothing is left to cling to. An offshoot of the divergence of views over change and stability is another trade off which became apparent from the interviews. There appears to be a trade off between *youth* and *experience*. The flexibility and adaptability of youth offset by contacts and institutional knowledge of older workers. The pilot study (Firm E) found that hiring older, more experienced workers seems to have been a failure. Younger employees who may have been rebels under the old system are more likely to become individually motivated by realising that under the western system it is possible to earn significantly more than someone who is not so motivated. This issue however was not pursued as an area for further research.

On a practical level, change management programs need to address the expected resistance to strategic change. Johnson & Scholes, 1988 identify a three step approach to achieving change away from the accepted "recipe" and also the "cultural web" that supports and legitimises that recipe. They use Lewin's (1947) ideas of: *unfreeze, move then refreeze* and give examples of how executives can lend weight to the process during each of the three periods in the change process. In the initial unfreezing epoch there may well be an organisational trigger such as loss of a major client or threatened take-over. Alternatively, new top managers or management consultants may be brought in specifically to push through change. The fact that they are new and not linked to the old culture alleviates their task.

In the moving to the new, post change position be it in strategy, structure, culture or whatever, the adoption process needs to be reinforced by highly visible top management action, i.e. showing through deeds. An example might be for the MD to personally man the switchboard for a few hours a week and guarantee customers who call an answer within a specified time.

The refreezing phase could well be accomplished by certain symbolic acts to emphasise the irrevocability of the change. Old high-level defenders of the past status quo may be sacrificed.

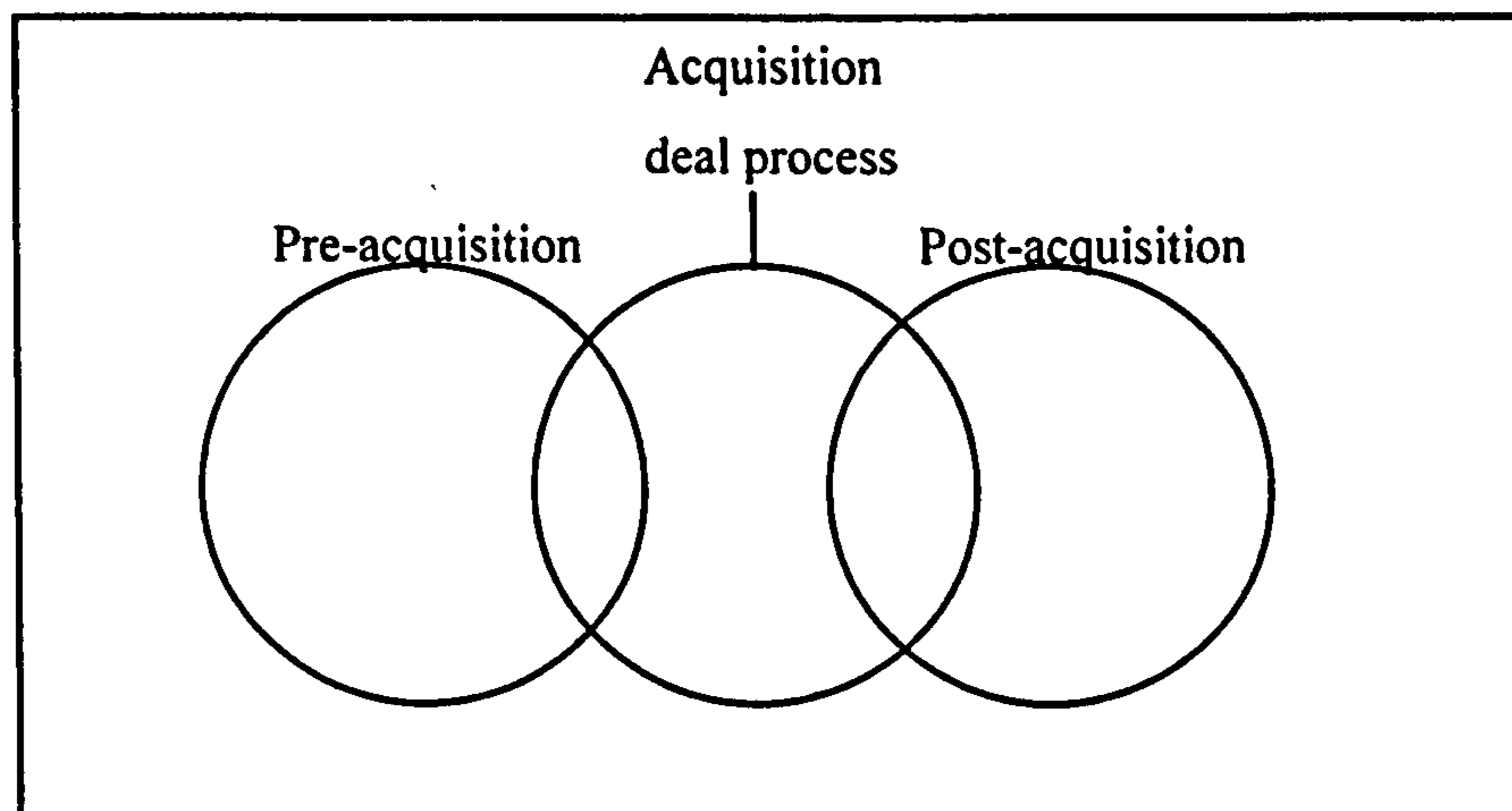
However the implementation of change is not a purely mechanistic activity (Carnall, 1991). Ultimately successful change depends on changes in individuals and here there is an impact on self-esteem dependent on how much control they feel they exercise over the change process. Carnall, (1991) shows that there is a five stage change cycle for each individual. Everyone in the change process goes through: denial, defence, discarding, adaptation and internalisation. The link to the more macro level, three-phase change process of Johnson & Scholes, (1988) is self evident.

5.2.3 Mergers & Acquisitions (M&As) Literature

The general introduction to M&As which occurred in 3.2.2 split the literature on M&As into two groupings: pre- and post-acquisition with the acquisition process itself making the running for inclusion as a third grouping, (Jemison & Sitkin, 1986). This section will concentrate on the post-acquisition phase, although the effects of the two preceding phases spills through. The overlapping nature of the phases can be shown diagrammatically, see Figure 5-3.

Figure 5-3

The Three Phases of an Acquisition



The pre-acquisition phase is dominated by attention to the attractiveness of the target. It is important at this stage to differentiate between related (close fit) and unrelated (portfolio) type expansions. The deal making process phase attracts attention to closing the deal as quickly as possible. Consequently many urgent problems are put to one side and come back to haunt the M&A in the next stage. Managerial fit becomes important in this deal phase as the two sets of managers start interacting during the negotiations and battle lines or alliances are drawn up which continue over into the post-acquisition phase. The final stage, the post-acquisition stage, is the main focus of this research. Here attention is given to searching out and creating synergies, operational, resource transfer, accounting, financial or cultural.

If the new organisation successfully navigates around the twin islands of ensuring a reasonable degree of strategic fit through careful analysis and selection of acquisition/merger targets, and not paying an exorbitant premium then the opportunity for synergy just mentioned is present. To capitalise on this synergy the firm must quickly and safely navigate the more subtle tides and currents of managing the integration of organisational resources, routines and culture without becoming so internally focused as to fall behind the market progress of competitors who's energy is not consumed with integrating a new partner, (Baden-Fuller and Boschetti 1995). The

organisation must not only capitalise on scale and scope economies achieved through effective integration it must also create new capabilities to stay abreast, or ahead, of the competition. This is done through the reconfiguration of the firm's old resources and capabilities and the learning which this process triggers. Thus organisational learning generated by the process of resolving the practical and cultural challenges posed by post-merger organisational fit and integration process becomes the real return from Mergers and Acquisitions, Thomson & Mc Namara, 1997.

The pre-acquisition phase has an effect on the post-acquisition phase through the decision taken concerning the mode of entry. The acquirer can decide to gobble up the whole of the acquirer (100% acquisition) or at least enough of the voting stock to control strategic decision making. On the other hand the two firms may merge as more equal partners, especially where the voting stock is left in the hands of the existing (East German) acquired firm's management. Choosing this latter co-ownership route eases any agency problem associated with differing goals of management and owners. An example here is downsizing. The East German M&As were, even after *Treuhand* initiated slimming courses, over-manned. East German managers in a M&A who were involved in ownership were in a position to humanise the decision to make employees redundant. They were able to explain to employees with whom they had worked for years why they must leave, or for those that stayed on, why the changes were necessary. Their ownership stake forms a commitment to "champion" change as opposed to neutrality or outright opposition.

The mode of entry has an effect on the speed of restructuring, a theme taken up later in the discussion of the results. Additionally, the mode of entry spills over into the "process" stage as the two management teams who negotiated the deal have to live with one another after its conclusion. Hence positive relationships based on similar styles in this phase auger well for post acquisition times. Datta (1991) found differences in management styles negatively affected performance in acquisitions.

All the sample M&As were expansions eastwards by foreign firms within the same industry, i.e. M&As were of similar firms not dissimilar. It has often been argued that similarity between acquirer and target firm is necessary for a successful M&A. Either

by market power gains (Montgomery, 1985) or strategic relatedness (Chatterjee, 1986; Porter, 1987; Singh & Montgomery, 1987). Harrison et al, (1991) challenge this dominant similarities theory and champion differences in resources between acquiring and target firms as positively influencing performance.

As already stated this research looks at horizontal M&As within the same industries, the expansion course most predicted to throw up synergies. It is therefore necessary to explore the concept of synergy. Harrison et al, 1991 quote Ansoff, 1965 and define synergy as “implying that gains accrue to the acquiring firm through two sources: (a) improved operating efficiency based on economies of scale or scope; (b) some kind of skills transfer”. However the researcher’s interest in the post-acquisition phase depends on the position that “synergy may be a necessary but not sufficient condition to obtain value for the acquiring firm”, (Barney, 1988). What else is needed?

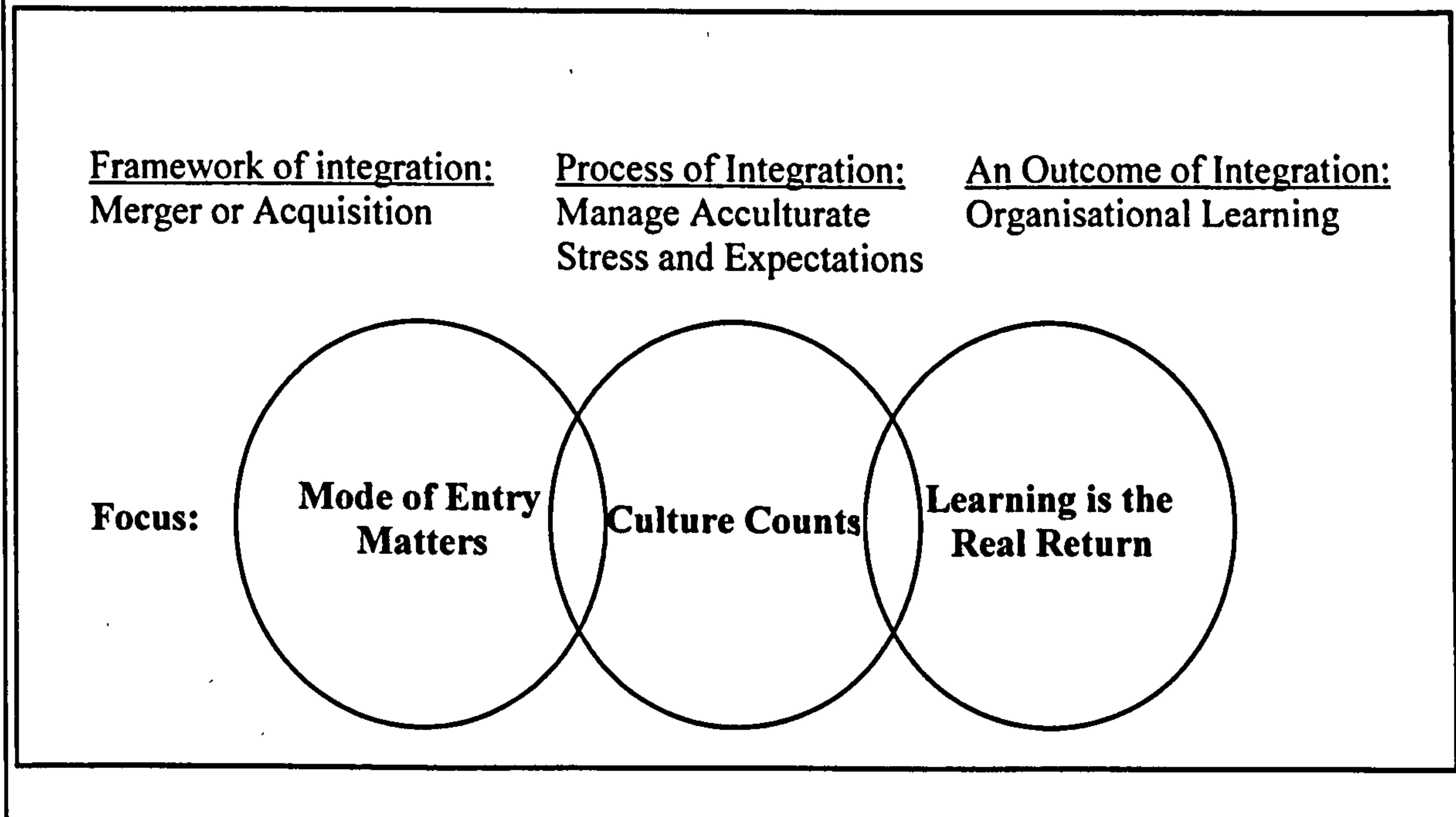
An expanding area of interest is the effect of cross-cultural differences, both national and organisational, on post-acquisition performance. This research examined six cross-national M&As. A cross-national M&A being defined as “bringing together two companies which have different organisational cultures, which themselves are nested in different national cultures, (Very et al. 1997). Cultural differences have been associated with reduced co-operation of acquired employees, (Sales & Mirvis, 1984), financial success, (Datta, 1991) and executive turnover, (Walsh, 1988; Hambrick & Cannella, 1993). The latter authors talk of the buying firm’s culture generally dominating, a theme expanded by Baden-Fuller & Boschetti (1995). This research builds on the question of does the acquiring firm’s culture generally pervade? A theme examined by developing a model based on Nahavandi & Malekzadeh, (1988). The model attempts to measure acculturative stress and thus the cultural dominance of the acquirer. Recent work by Very et al, (1997) found strong support for the view that similarity in the relative standing of the target firm management in comparison with the acquirer management brought a minimisation of performance problems. The results of this research support the conclusion of Very et al, 1997 that when the western management act as partners with the eastern managers and not as conquerors, the resulting smooth acculturation augers well for the future.

Finally returning to the question of possible synergy in the post-acquisition phase. The overarching theory of this research, the Resource Based View of the Firm (RBV), is used to review implications for learning and knowledge transfer, (Wernefeldt, 1984). Indeed the mother of the RBV, Edith Penrose, (1959), went so far as to develop a theory that the pool of unused productive services, resources and special knowledge in the acquiring firm can be an internal inducement to expansion via a M&A. The M&As researched were not flooded with western managers, except for Firm F, so the alternate view is posited. Here western firms actually bought into East German firms which had a pool of under-utilised productive services. They may well have made the acquisition thinking that by sharing resources and activities synergy could be obtained, (Brush 1996). However any such sharing and transferring was hampered by language barriers, acculturation in general and minimum eastwards management transfer. The implications from a RBV viewpoint are that organisational slack existed, and by leveraging the under-utilised resources through knowledge transfer allowing learning to take place. However the learning should have been bi-directional as the Eastern side had a lot to offer the Western acquirer.

The overlapping circles of Figure 5-3 can be extended to incorporate the three specific research focuses of this chapter, see Figure 5-4.

Figure 5-4¹⁹

Research Focuses and the Stages of Acquisition



5.2.4 Learning Literature²⁰

a. Learning and Knowledge in Organisations

Knowledge has long been recognised as one of the key factors in the creation of economic wealth within societies (Hayek 1945; Marshall 1965; Penrose 1959; Stigler 1968; Teece 1977). An increasing number of authors are coming to view the creation and/or application of knowledge as a key function of the firm (Argyris and Schon 1978; Grant 1996b; Hamel and Prahalad 1990; Senge 1993). We can observe that fundamentally different knowledge creation and application strategies were employed by organisations in the East and firms in the West after World War II.

With the collapse of communism these two different forms of knowledge creation and application have come face to face through Mergers and Acquisitions, presenting opportunities and challenges for managers in the field. In this section we will first

¹⁹ Figure 5-4 is taken from the City University Working Paper "Companies that came in from the cold" by Thomson & Mc Namara, 1998 at the time of writing awaiting publication as part of a book.

²⁰ This sub-section comes from Thomson & Mc Namara, 1997, EGOS presentation, but was mainly the work of Peter Mc Namara who has graciously allowed usage here.

outline some of the basic elements of knowledge management, including the central issue of creation and deepening of knowledge bases. We will show how knowledge trajectories differed along these two elements in Eastern versus Western firms. We will then outline the opportunities and challenges faced by firms in merging these differing perspectives. The complexity of the task is increased by the fact that knowledge transfer and integration across firms is generally viewed as considerably more difficult than internal creation and application of a firm's knowledge base. Core to the transfer and merging of knowledge across firms is acculturation, a theme which forms the centre piece of our empirical analysis which follows in later sections.

b. Knowledge Management: Capabilities and Sustainable Competitive Advantage

We view knowledge management as the process of creation, development, maintenance, expansion, contraction and decline of organisational capabilities. This is both because organisational capabilities are essentially knowledge based and they are the central element in the creation of Sustainable Competitive Advantage (SCA). Organisational capabilities are defined by Amit and Schoemaker (1993) as: information based, tangible, or intangible processes that are firm-specific and are developed over time through complex interactions amongst firm's resources... unlike resource, capabilities are based on developing, carrying and exchanging information through the firm's human capital.

The most important capabilities are core capabilities. They are defined by Teece et al (1990) as: "a set of differential skills, complementary assets, and routines that provide the basis for a firm's competitive capacities and sustainable advantage in a particular business". The development of a core capability is a difficult task which requires the creation of new and novel combinations of a firm's resources and capabilities. As Hamel and Prahalad (1994) note: it may take five, ten, or more years to build a world leadership in a core competence area, consistency of effort is the key. It should be noted here that East and West Germany were separated for over four decades. Within this time their respective producers had the opportunity to create distinctive sets of core competencies.

Sustainable Competitive Advantage (SCA) can be derived from resource or capabilities which are rare, imperfectly imitable, durable, and can be deployed in products and

services (Barney 1991; Black and Boal 1994; Connor 1991; Grant 1991; Hamel and Prahalad 1990). The goal of SCA is to obtain returns in excess of the resource owners cost of capital. The central source of SCA is core capabilities.

The opposite to core capabilities are core rigidity (Leonard-Barton, 1992). They are sets of knowledge which have been valuable sources of competitive advantage in the past but are now inappropriate to the future competitive game. Over time capabilities which have heralded success in the past may no longer offer the route to future success. As the firm seeks to create new capabilities which can produce improved products and services the old capabilities can hamper the effort to develop new ones. We argue in section 5.2.4.c below, that core rigidities gradually pervaded the majority of East German industry, thus widening the competitive gap between them and the wider market driven world.

c. Learning Races: Assumptions

Central to our argument are the following set of assumptions.

The heart of knowledge creation is the individual (Argyris and Schon 1978; Grant 1996b; Huber 1991; Klein 1989; March 1991; Polayni 1966; Simon 1991). The task of the firm in knowledge management is the co-ordination of individuals who alone could not have sufficient knowledge and resource to build the complex products and services required in today's society (e.g. cars) but who combined can efficiently and effectively apply their knowledge to deliver such goods and services (Grant 1996a). The firm appropriates its return in the knowledge management process from its co-ordination of groups of individuals who jointly apply (and to a lesser extent jointly create) knowledge, thus we can see that the heart of knowledge application is the group. The role of the firm necessitates that knowledge creation and application will thus occur in a social environment (Blacker 1995; Nonaka 1994), however the core of knowledge creation will remain the individual.

Unfortunately communism showed a tendency towards intolerance of individuality. Individuality tends to foster mavericks, people who dare to be different, or have a

different view of how the world works. Mavericks may take contrary views in the area of what products and services firms should and could produce, a mixture of these are one of the key catalysts to avoid core rigidities (McNamara and Baden-Fuller 1997). In a communist society it is much less likely that mavericks would have publicly exposed themselves in the workplace. Hence the danger of core rigidities was greater than in a society which tolerates, and in some cases (e.g. USA) embraces maverick behaviour.

Over forty years long there existed a competitive race between East and West across multiple dimensions from sport, to politics, to science and technology. This can be viewed as a learning race, where each society sought to best the other with superior knowledge which could be applied into products and services for all the world to see (e.g. the Space Race, the Arms Race, the Olympics etc.). Some authors argue that the improvements in reliability that investments in learning capabilities bring comes at the price of reduced variability within the firm (Levinthal and March 1993; March 1991). It is argued that the price of such reduced deviation within the firm is the chance to gain primacy in the competitive race. With lower explicit individual diversity East Germany firms may have sought to increase reliability but at the cost of variability, and hence innovation and learning. Reliability and variability can be seen as a duality or dilemma (Hampden-Turner, 1990). The ability to manage these two conflicting pressures to obtain optimum results is a common problem for all organisations.

Improvement in a firm's relative competitive position is affected by the number of competitors in the market and the variability of the strategies to gain success (March 1991). Thus if a firm wishes to maintain its relative position, employment of a learning strategy based around deepening current knowledge will work because it improves reliability. However, in the race for primacy, the greater the number of competitors the greater the potential variability of strategies in the market, hence, the greater need for specific firms to encourage variability so that they might hit upon a successful strategy that attains market leadership.

In the West there were many firms with competing strategies, hence creativity bubbled up. The East German system operated as a sort of single entity, GDR PLC if you like. In an environment where there are few firms the best strategy is that of specialisation. In

the GDR the outputs of one producer fed into the inputs of another, controlled by political economic plans, rather than the market forces of managerial ingenuity. Whole industries were vertically integrated, while links across industries were fostered by the state. In an ideal world GDR PLC might have been able to greatly increase reliability at the cost of variability. Even then over a period of 45 years separation from the West it would have fallen ever further behind in the learning race, unless it allowed new ideas to filter into its system from the West. It did not generally allow this to happen, nor was the GDR PLC an ideal world - far from it. Based on the above assumptions we argue that ex-GDR firms would on average have much less to offer in a merger with a western firm in terms of strategic or operational creativity.

However, there did exist factors in the ex-GDR which might suggest that on average they could have more to offer in the application of current knowledge in overcoming core rigidities. We will now examine in more detail why these points should be so.

d. Core Rigidities and their Solutions

The development of core rigidities tends to be path dependent (Cohen and Levinthal 1990; Collis 1991; Mahoney 1995). The core capability grows over time building on past successes, reinforcing behaviours that have led to past success and embedding these deeper into the organisation. This enables the firm to refine its organisational routines, procedures and efficiency in knowledge integration. A problem emerges when new capabilities are developed by other firms which more effectively deliver products and services which society wants and is willing to pay for.

In East Germany where whole industries were vertically integrated the development of a core rigidity in one part of the value chain could inhibit the value adding tasks of the entire network. With a policy of full-employment and no real means by which firms could go bankrupt, and thus die, core rigidities could not be removed from the system other than by pro-active management. The problem is that the mechanisms management could employ to remove core rigidities from the firm, were strongly discouraged by the state.

There are good reasons why firms are reluctant to change capabilities without the threat of organisational death. The principle reason is the high switching costs which may be involved in moving from one capability to another (Kogut and Zander 1992). The interplay between bundles of resources and capabilities necessary to create a new core capability will, at the outset, be poorly understood since the creation of organisational knowledge is by definition a complex and uncertain process. Kogut and Zander (1992) articulate this risk in their study when they note that: Switching to new capabilities is difficult as neither the knowledge embedded in the current relationships and principles is well understood, nor the social fabric required to support the new learning known. This can be reinforced by the high levels of inertia within the firm and the high level of costs attached to investments in the exploration of new knowledge (Levinthal and March 1993; March 1991; Huff et al 1992).

In East Germany the switching costs were very high due to the vertical integration of industries. If for example new production processes in coal production failed, then the knock on effect on electricity production would be considerable, and by extension the consumer production of the region. Switching costs, and the heavy cost of failure on a personal level when challenging the status quo, may have encouraged members of East German combines to continue to apply and expand their current knowledge to the problems the firm faced, rather than developing alternative solutions based on more efficient and effective knowledge bases. This very problem of sticking to old methods and knowledge in the power industry has been described earlier in Chapter 1 when discussing structural imbalance.

In addressing the challenge of core rigidities the firm is faced with three primary strategies: First, take a population ecology world view, accepting the onset of organisational decline that core rigidities will eventually cause organisational death as the firm becomes increasingly divorced from its environment. The East German system did not allow bankruptcy, hence this scenario was academic although that is no longer the case. Second, invest in the promotion of intellectual diversity. Third, invest in unlearning capabilities either provocatively, or as and when the need arises. We will now outline these last two strategies.

e. Promotion of Intellectual Diversity - A Solution to Core Rigidities

The process of exploration for alternative capabilities and organisational strategies is more likely to occur in a firm with differing perspectives on what the purpose of the firm is and what products and services it should deliver. The creation of new organisational knowledge is strongly influenced by the interaction between individual knowledge and the firm's knowledge base. The firm's knowledge is embedded in its routines, culture, group behaviours and hierarchy. On average the knowledge stored in these systems will be a more accurate reflection of reality than the individual's view. However, organisations are inanimate objects, it is only through the diversity of individual's knowledge that the firm can change its view of the world, and hence its capabilities (March 1991).

Change is more likely to occur if the firm notices a gap between what its current combination of resources and capabilities can deliver, and what the customer wants over time. When noticing a serious value adding incongruity between market needs and the capabilities of the firm, individuals need to raise questions which highlight these incongruities. Such questions are more likely to come from organisational mavericks, people who have questioning minds, and the desire to express their ideas both to others and through the products and services they create. This is not a typical feature of people who seek to fit into the company or political party line. As such it is unlikely these managers would have lasted long in the old East Germany.

Another way to promote change in a firm's organisational knowledge is to introduce new people into the firm (Carley 1992; Simon 1992). Personnel turnover can occur when a firm is expanding, hence taking on new people, when people retire from the firm, or alternatively move onto other firms. The idea is that these new people can infuse the firm with new ideas. If they have past experience in another organisation then they can bring insights into alternative ways of running the business, thus enabling the firm to envision new methods of working. In a way this is partially what has occurred in the M&As of Western and Eastern firms, where new staff have been brought in.

f. Unlearning - A Solution to Core Rigidities

Unlearning is defined by Hedberg (1981) as a process through which learners discard knowledge which is misleading ... This process of unlearning can be equated with Schumpeter's process of creative destruction.

On the knowledge management front new M&As were offered a work force prepared for unlearning of old capabilities and acceptance of new. They also were also offered a capability at knowledge application which matched, and may have exceeded Western firms. There were reasons some firms over-looked this benefit. In a society where personnel turnover was much higher in the lower ranks, western firms had developed complex systems of organisational routines and procedures which enabled them to preserve their production knowledge. Otherwise the firms knowledge, upon which its capabilities are based, could literally walk out the door as employees moved from one job to the next.

For example in McDonalds there exist very detailed written procedures on the cooking of burgers, how long they can remain on the shelves before being sold or thrown out etc. They are detailed and established rules on the sequential interaction of individuals from the kitchen, to cleaning, to the sales counter. Staff receive on the job training into these procedures, reinforced through constant repetition. Such written procedures were less necessary in an East German restaurant where staff remained in the same workplace, and often the same job, for life. In this environment, sequential interactions between individuals could have been ingrained in staff through organisational culture.

In a way one could say that organisational culture is a complex routine, embedded in which is the tacit knowledge of the collective organisational mind. One of the difficulties of this type of stored knowledge is that the beliefs and assumptions it generates are hard to clearly identify given that they are subconscious. This can lead to difficulties where these assumptions become removed from the reality of the organisational environment over time, but major decisions continue to be made based upon them. In East Germany the assumptions about the relationship between capital,

labour and consumers became increasingly divorced from wider global realities, however the dogma of communism created a world in which broader realities were hidden from the populous.

The surfacing and challenging of these assumptions is possible (Mason and Mitroff 1981), but real cultural change is a difficult task (Bate 1994). Hence, storage and integration of knowledge by embedding it in the organisational culture can be very efficient when first created, because it passes into the tacit knowledge bases of a wide number of individuals, however, as the environment alters the ability to unlearn such knowledge is a slow, laborious, highly costly, and often unsuccessful crusade (Hax and Majluf 1984; Wilson 1992). Thus, in the long term, storage of large amounts of knowledge within the organisational culture can lead to very inflexible capabilities. Here we see that change in East Germany firms is difficult without a crude removal of culture, as many firms tried via mass redundancies, or a direct inclusion of culture in their Merger and Acquisition strategy. Firms which addressed the issue of acculturation head on were, in our sample, more successful.

5.3 Emergent Questions and Working Assumptions

To provide a seamless link the research problem and main research questions as documented in Chapter 2, section 3.2 and 2.4.1 are shown below:

1. What pressures induced or negated change and integration?
2. What strategic actions eased post take-over integration?
3. What are the implications for learning?

The literature chapter, backed up by the more specific literature review in this chapter, support three working assumptions which go some way to obtaining answers to the above research questions.

To answer question 1 a closer look at how each of the partners in a M&A perceived each other is necessary. Different perceptions and expectations will give rise to conflicts and stress. Also different power positions will lead either to a forced

acceptance of change or an agreed accommodation. In the chapter overview, this scenario was described as a barrier to enhancing employee skills and attitudes. Did this situation exist in the researched M&As? One situation where barriers were possible was postulated in the working proposition of this chapter now phrased as question - *Did the dominant culture always win?* We can examine this and the previous question by posing the following working assumption:

Working assumption 1: *Where the acquirer (in this case a Western firm) is financially and technically strong, any acculturation takes place on the acquirer's terms.*

The second general research question looks at what management can do to ease integration after the take-over. There is a link to the first assumption as it can be posited that the power position of the Eastern firm is higher if there is some element of co-ownership. Given a more evenly balanced power relationship between the acquired and the acquirer the second working assumption is:

Working assumption 2: *There is more opportunity for the Eastern culture to influence the incoming Western culture when co-ownership exists. Co-ownership means that enough shares stay in Eastern hands as to make it difficult for unilateral decisions to be made by the Western acquirer.*

Given a good mixture of the two firms' cultures and countervailing power relationships between the Eastern and Western management, the ground work for a learning organisation will have been laid. To look at the implications for learning the third working assumption was developed:

Working assumption 3: *When there exists an equal relationship with low acculturative stress between Western acquirer and Eastern acquired, two-way learning and information exchange is the outcome.*

In investigating whether the dominant culture always wins, three published papers, one by the author and two co-written with Peter Mc Namara are used. These papers use the field data of this dissertation and build cumulatively in developing evidence for and against the research question. Firstly, the importance of the concepts of acculturation, foreignness and the psychic distance paradox are given a viewing. A model is developed to attempt to measure acculturative stress in West-East M&As. Secondly, the argument

moves on a little further by extending the model and the implications of this extended model to the concept of two-way learning is given a more detailed investigation, as there is a direct link from two-way learning to a firm's competencies. The extended model takes on board the assessed level of two-way learning as an important variable in post-acquisition success or failure of M&As.

5.4 Data Collection

Twenty nine Western and Eastern supervisors and employees were involved in individual interviews at five case firms. Six Eastern employees at a sixth case firm took part in a group interview rounded off with a CEO individual interview. To avoid just "successes" the argument was addressed: *whether it is logical to obtain all field interviews from people who are working and have successfully integrated?* Surely the 60% of the East Germans who did not successfully integrate and lost their jobs have something to offer? To include this valuable source of information but to keep the research practical, a second pillar of the research was therefore individual interviews with twelve of these unfortunate "losers" of the reunification. Luckily these "losers" are washed up onto unemployment office training programmes and were accessible through contacts with one of the programs in East Berlin. The combined case set included: individual, group and unemployed interviews and was the same as that used in Chapter 4 with an overview provided in Table 4-11.

5.4.1 Individual or Group Interviews

One unexpected quandary turned out to be that in studying barriers to change and integration in a M&A where integration did not go smoothly it was impossible to conduct individual interviews. The employees simply refused to talk individually and so a group interview had to be hurriedly arranged. Six employees of the sixth firm therefore engaged in a group interview which of necessity had to be more structured than an individual interview.

Pros and cons of group interviews: The drawbacks to in-depth interviews form the positive criteria which favour selecting group interviews. Individual interviews are time

consuming and expensive. One can obtain the views of 10 - 15 people inside one hour with a group interview. Certainly the data gained will be on a more shallow level as that from an individual interview, but its validity will be of a higher order. Also the breadth of viewpoints and hence potentially interesting linkages will be greater with a group. Offsetting these group advantages are the perils 'group think' and the fear of expressing oneself in the presence of ex-colleagues or even ex-superiors, just such an occurrence heavily affected the group interview. Here the R&D Director hogged the conversation, constantly interrupted people of lesser status and tried to direct what was said to his way of seeing the situation.

5.4.2 Contrasting Case Studies

The most unexpected and therefore most interesting field occurrence was the emergence of patterns linked to the topic of two way learning. Here the variables being analysed were not at the individual level but were firm specific and therefore should be assessed at the level of the firm. The data however were collected by individual and group interviews inside the firms. For a discussion of why individual variables (individual vision) can be analysed at the firm level (shared vision) see Senge 1990, Chapters 11 & 12. The outcome of this conundrum, for which thanks are due to the research supervisor, Professor Charles Baden-Fuller, was to revisit the most widely differing firms and extend the existing case studies by collecting additional firm specific documents, financial statements, press cuttings etc. (Yin, 1989: 85). The idea being to take the most successful firm at creating the preconditions for a learning organisation and the least successful and then contrasting the case studies of these organisations. Points of difference between the two case studies could provide valuable insights into cause of successful acceptance of change or the opposite (Fielding & Fielding, 1986). To use Yin's classification (Yin, 1989:46) there would be a multi-case/embedded design. Embedded as there are multiple units of analysis (individual, group and firm) and multi-case as there is more than one firm. As we have found contrasting results, then the reasons for these can be theorised (theoretical as opposed to literal replication). An immediate problem is that firms tend to be less willing to allow case studies where it is perceived they have been unsuccessful. The number of well known cases dealing with failure are limited perhaps the best known being Burgelman's INTEL case on

fading memories (Burgelman, 1991). The INTEL case greatly impressed the researcher and has been used as a model example of how to write a case study.

5.4.3 Acquisition Vs. Merger (Co-ownership)

Details of issues mainly relevant to the pre-acquisition stage have been summarised in Table 4-12. In all cases the East German M&As were operating in the same business sector as the acquirer. Although quite sizeable by some standards, the scale of the purchase in both costs and resource terms added less than 5% to the acquiring firm's overall revenues and costs. The one exception being Firm F, where the East German expansion represented approximately a 50% increase in the acquirer's size. It is common to make no differentiation between a merger and an acquisition but we feel such aggregation hides important differences. For our purpose we define both forms of combination in relation to power over decision making. Acquisitions occur with the buying up of enough stock to have control over decision making in the boardroom. Mergers, on the other hand, are defined as the sharing of a firm's stock to the extent that decision making at the board level is not effectively in the hands of the acquirer. Using the above definitions we investigated 3 mergers and 3 acquisitions.

5.5 Contrasting Case Studies of M&As

Two case studies at the opposite ends of the spectrum of successful/non-successful implementation of a climate of integration, trust and knowledge transfer are shown below in 5.5.1 and 5.5.2.

5.5.1 Case of a well handled M&A - Acerplan GmbH

The medium sized engineering consulting services firm of Acerplan is located in Halle in the former East Germany, now part of the Neue Bundesland Saxony-Anhalt. The case study has been made possible by the generous interest shown by David J. Yaw, the firm's British Director for Marketing & Business Development plus also Dr. Peter Wald, Personnel and Communications Manager. As well as the group and open-ended interviews which took place in November 1996, much of the material here was

contained in the MBA dissertation entitled: *Managing Corporate Change in a new Market Economy: Case Study of an Engineering Services Firm in Eastern Germany*, submitted by Mr. Yaw to the Henley Management College, Brunel University in January 1994. Another source of written information was the article: *Case Study: Why East Germany?* in FT Mergers + Acquisitions International in July 1992, reproduced in Mr. Yaw's dissertation as an Appendix. The article was authored by Chris Bosker a Director of the parent Acer Group who negotiated the merger with the Treuhandanstalt.

History of Acerplan.

Acerplan's predecessor, IPRO Halle GmbH (IPRO), was founded in 1950 as an independent engineering consultancy with the primary role of assisting with the reconstruction of war-torn Eastern Germany. Halle was an ideal base because of its location in Saxony-Anhalt at the centre of the heart of the former East Germany.

In 1970, as part of the increasing central ideological influence on USSR satellites, IPRO was absorbed into the massive construction conglomerate BMK Chemie. BMK Chemie was responsible primarily for the construction of chemical plants in the former East Germany and IPRO took on the planning and design role for BMK, alongside IPRO's sister company HMB, which fulfilled the contracting role.

After the fall of the Berlin Wall, IPRO became a Treuhandanstalt (THA) administered firm and was separated away on 1 May 1990 from the former combine BMK Chemie as part of the pre-privatisation process. Since this date the company has undergone extensive rationalisation and restructuring, reducing the workforce from an original 1,000 to 420. The THA appointed Herr W-D Hein as Chairman of the Supervisory Board and together with a management consultant the rationalisation program was put into being and the company was split into 9 divisions, containing 29 individual market oriented offices. Although many projects tended to very small, the company profited from the post unification building boom and the strategy was generally successful, with IPRO recording a profit in 1991. On the 31st March 1992 IPRO was finally privatised with Acer taking a third stake along with the Berliner Bank and 17 members of the company's management. IPRO was subsequently renamed Acerplan in July 1992.

Why Eastern Germany?

Acer Group, the 2,600 strong multi-disciplinary UK consulting engineering company formed in 1987 by a merger between consultants John Taylor and Freeman Fox (probably best known for its own work on Turkey's Bosphorous suspension bridges) is delighted so far with the DM 29 million acquisition it made in 1992 in East Germany. To Acer, East Germany was just another eastern European country needing to adapt to a market-led economy where management and marketing skills were required and the meaning of the words such as productivity and profit needed to be learned. Acer was looking to expand into eastern Europe not necessarily into East Germany but had little success looking themselves. They therefore employed Hill Samuel whose German affiliate came up with several possibilities which were whittled down to one, IPRO. Although the company had over 400 employees in a town which no one had heard of, an initial meeting took place in September 1991. Contact at IPRO was Herr Hein, who had been installed at IPRO by the THA as Chairman. East Germany was seen as a low cost way of buying into the German market as acquisitions in the old West Germany would have been very expensive.

The Purchase Process:

The THA is interested in two documents. The first is the concept document, where the acquiring company sets out, in fairly broad terms, what it is going to do with the company when it has bought it, and how the acquisition is going to be beneficial, not only for the acquiring company but for the acquired company, the employees of the acquired company and for the region in general. The second is the legal contract of purchase, the first draft of which was produced and signed at the second meeting on 16.12.92. The THA put on pressure by saying if the document was not signed the process would be opened up to competition.. There was initially no specific date on which the final contract was to be signed, to give time for due diligence.

Putting the deal together:

The final price to be paid to the THA was DM 29 million, split three ways between seventeen of the firm's managers, the venture capital branch of the Berliner Bank and Acer. However as is often the case in a THA deal, the price itself was only a partial element of the whole deal, for instance employment guarantees for the 420 staff were equally important. Most of the company's assets were tied up in a 5,000 square metres, fourteen storey office block plus other miscellaneous buildings. Some 15 claims against ownership of these properties were submitted which made using the property as collateral against the finance loan a lot more difficult than it should have been. Ownership claims were a common feature of the post-wall East Germany. Many properties were requisitioned by the Russian Army after 1945, or later by the DDR government when the property or land was needed to further the industrial growth plans. Much property was left without owners when the owners fled to the West before the building of the boundary wall between the two halves of Germany. These owners, their children or grandchildren started coming out of the woodwork and putting in claims to get their property back. A government organisation was set up to co-ordinate the claims, but the process was made more difficult by the lack of legal documents (all German property should have a *Grundbuch*, much like a car's ownership log book). These *Grundbücher* were in many cases lost or destroyed by the communist authorities, in addition many spurious claims by people hoping to make an illegal profit were submitted. The most famous and funny example is the 10 square metres on which the 100 metre high television tower in East Berlin stands. 150 individual claims were received for this 10 square metres! In order to check out the validity and dispute the fifteen claims against Acerplan's property ownership, a German law firm was engaged. Likewise the task of due diligence was awarded to Coopers & Lybrand and financing was organised through the future part owner, the Berliner Bank and the Hypo bank in Munich. The draft THA contract turned out to have many unacceptable clauses but the THA proved to be less than flexible and indeed cut the amount of time allowed before going final. Completion eventually took place at the end of March 1992.

Initial Strategies:

So the new company together with one Acer Group representative (David Yaw, bilingual in German and English) started the task of consolidating in the brave new world of competitive markets. In contrast to the strategic decision to expand into Germany, which seems to have been quite unstructured and entrepreneurial, the strategy for turning the new firm round followed some text book type methods - SWOT analysis, change management methods etc. However one very positive development had already taken place which needs recognising. The M&A involved the existing firm management. This is critical to the argument in this dissertation, that two-way learning can take place in situations where a foreign firm acquires an East German one. If the existing managers actually own some of the new organisation, then a major, potential barrier to change has been eliminated up front. There can be no them and us mentality, as they are us! Likewise the very openness of the British Acer management to even contemplate sharing power with, what had after all been managers in a planned not competitive market, was the harbinger of an open and tolerant culture. The coopting through ownership of existing managers allows the acceptance of hard decisions without agency problems (Fama, 1980, Jensen & Meckling, 1976) upsetting and complicating the picture.

Prior to acquisition and while under the THA administration, IPRO's basic strategy was one of survival pending privatisation. With the help of a management consultant the firm was reorganised into nine profit centres based on target markets (e.g. town planning, civil engineering). Key staff were given training in marketing but no formal marketing plan was established. During negotiations for the acquisition, a somewhat centralised, hierarchical and "top down" management style was encountered. Little use was made of management accounting information, which was treated with excessive secrecy.

During pre-acquisition discussions (made up of questionnaires, discussion groups, individual interviews), it was noted that while some questions were readily and spontaneously answered, it quickly became apparent that such enquiries required handling with sensitivity due to:

1. Concern for job security. IPRO staff went from 900 to 420 in the year to March 1992.
2. Conservatism. There was no history of middle level staff being consulted on marketing, or apparently any other issue.
3. Distaste for personal interviews with questionnaires, perhaps reminiscent of methods of the former DDR State Security.
4. A culture of secrecy. Under the DDR, staff were required to lock their personal workroom every time they left it, even to use the washrooms.

Based on these pre-acquisition findings it was decided in further research into strengths and weaknesses to concentrate on group and unstructured interviews, the motivation effect was regarded as being more important than missing a few hard facts. The discussions commenced with a larger forum, and having established initial confidence with the Profit Centre Managers and their staff gradually worked down to the individual level.

The internal strengths and weaknesses were perceived as:

- a. Rigidity of structure. The existing seven technical and two geographical divisions should have promoted a market oriented culture, but in practice the following problems persisted:
 - The background of most managers and staff was that of a very large bureaucracy, with defined procedures.
 - Profit centres bid for work outside their designated fields, "cannibalising" certain market segments (e.g. office buildings).
 - Vestiges of central planning still persisted in that the structure was rigid, and staff resources were not readily switched between profit centres to reflect fluctuating workloads.
 - Under German legislation the *Betriebsrat* or Staff Association has rights of consultation in staff reallocation, compounding the problem of inflexibility.

b. Organisational form. The 1992 form of the organisation was largely one-dimensional with an emphasis on function i.e. specialisation by discipline. At that stage of the firm's development this form was probably appropriate, but a move to a matrix structure with some decentralisation seemed inevitable. An example was that all management accounting and job control costing was performed centrally, with the result that technical divisions did not identify with "the Commercial Departments numbers".

c. Organisation culture. The immediate post take-over organisation culture could be typified as a "process culture bureaucracy" under Deal & Kennedy's 1982 model. There was a general concern with the group rather than the individual, not surprising given the findings already discussed in Chapter 4. There was an emphasis on tenure and rewards were not strongly linked to performance. Bringing about a more appropriate market-oriented organisational culture was one of the biggest challenges facing management. The aspects that needed attention were:

- No appreciation of active marketing, only reactive selling in response to client enquiries.
- Although the firm changed its name to Acerplan, one office still called itself Acerplan/Architektenbüro E. Magdeburg and Partner.
- Certain staff believed that the new political freedom allowed them to do what they wished or liked to do, not what they needed to do to fulfil a task.
- Marketing was a problem for the Marketing Department.
- Nearly two thirds of the staff were female, including many working mothers. There are limits as to what can be expected in raised motivation, commitment and productivity.^[1]
- The formal communication structure is very dominant and the informal structure very weak.^[1]

^[1] These two perceived weaknesses are very debatable. Firstly, are women with children more difficult to motivate? Secondly, later interviews showed managers complaining about the super swift jungle telegraph.

- Over industry average age profile. Many upper management and technical staff are typically 5 -10 years older than the Acer equivalents in the UK and internationally.
- d. Office accommodation. Offices were structurally divided into small rooms, very different to the "open plan" style commonly used in British engineering offices.
- e. Marketing mix (the 4Ps, Kottler, 1980).

Product: Acerplan's professional services can be categorised into 3 "products", defined by the broad stages in the typical construction project cycle. These are summarised below (Table 5-1) with common consultancy industry perceptions of their characteristics:

Table 5-1

Acerplan products and industry wisdom

Product	Industry "wisdom"
1. Concept and Outline Design	High margin, uses fewer but "smarter" staff.
2. Detailed design and tender/ contract documentation	High volume/ low margin Scope to use CAD
3. On-site supervision - Quality - Cost - Time	Introduces risk of liability for construction errors. Staff in early 90s in short supply.

These three "products" give Acerplan a strong position as it can offer a "one-stop" service, quick response due to large staff numbers, nationally accepted quality assurance system and the parent company's world-wide track record.

Price: In the German consultancy business, price is largely driven by official fee regulations for architects and engineers (HOAI). This defines a scale of fees based on the construction value of the project, and related to project type, complexity, size and

type of service. It is mandatory on Government agencies, but merely a guide for private sector clients. As the vast majority of projects undertaken by Acerplan up to the introduction of the marketing plan had been based on the HOAI, then there was little experience in the firm on bidding using internal costs of production not external construction prices. Relatedly Acerplan staff had little experience in trading off price against other elements of the tender offer e.g. completion time or payment terms. New Europe wide procurement regulations meant that projects over ECU 300,000 have to be internationally tendered and must include both a price and technical quality element.

Place: Acerplan was not sophisticated enough to take on the West German competitors in their own backyard. So the services need to be offered in the foreseeable future in the Neue Bundesländer. However Acerplan was extremely concentrated in Saxony-Anhalt, but based on UK experience a town the size of Halle (population 250,000) cannot support a 400 man office on local work alone. The design work formerly won in the CIS States fell dramatically, to 10% of the total, with the collapse of the former USSR and the transfer payments system under COMECON. That leaves the other five new Bundesländer representing 80% of the market. As local presence is a leading factor in obtaining contracts, Acerplan decided on a policy of opening offices in the other Neue Bundesländer. The market sizes for engineering consultancy work in the Neue Bundesländer are shown below in Table 5-2, it should be kept in mind that as at 1992, Acerplan had 92% of its staff in Halle alone and 99% in Saxony-Anhalt!

Table 5-2

Engineering Consultancy Market in the East German Regions

State	% of Consultancy Market	Acerplan staff
Saxony-Anhalt	20%	99%
Thuringen	15%	0
Mecklenburg-Vorpommern	10%	0
Brandenburg	15%	0
Berlin	20%	0
Saxony	20%	1%

Promotion: The former IPRO Halle was extremely weak in promotion, a legacy of its irrelevance in a supplier dominated command economy. A quick look at the promotional pamphlets showed just a listing of jobs done, even by German standards of modesty in advertising not very motivating for potential customers.

The External Opportunities and Threats were perceived as:

a. Macro level opportunities were the massive Government investment in the infrastructure of the Neue Bundesländer. The required construction needs for East Germany up to the year 2005 are, according to IFI-Institut, Munich (1991), DM 160 billion per year. This massive sum is the same size as the whole of the British construction industry! Indeed immediately after reunification project opportunities came looking for Acerplan, often on the basis of local personal contact. Acerplan was therefore often able to secure a contract on the basis of direct appointment instead of competitive tender. Unfortunately the threat was buried in the opportunity as seven years on, we know that the excess demand - lack of supply scenario was a short lived bubble phenomena. Construction's share of GDP in East Germany went from about 7.8% in 1990 to 10.5% in 1991. This high level of public investment in one sector proved to unsustainable due to the German government's rising budget deficit and the lack of parallel investment from the private sector. Acerplan's structure did not match the Government demand driven structure of the market. Specifically civil engineering projects were being pushed but Acerplan was relatively under-represented in this area in comparison to building.

b. Competitive threats. The German architect and engineering industry is highly fragmented with large numbers of 10-50 strong staff firms operating in conditions akin to perfect competition. Theoretically the previously mentioned HOAI set of fixed fees should reduce competition but in the private sector discounts of 10-25% are common. Seconded West German government officials who decide on the successful contractor, tend to favour using West German firms who are familiar to them and perceived as being technically superior. The relative overmanning of Acerplan was exasperated by currency union. Acerplan needed to raise annual productivity per head from DM 100,000 to DM 120,000 worth of revenue. New competition was being experienced

from plant suppliers and contractors who offer turnkey solutions, foreign M&As similar to Acerplan e.g. UTAG, new founded East German start-ups and West German expansion into the Neue Bundesländer.

Change at the firm level

Forces for change. There were several internal and external stimuli to change. The main internal one was the requirement to increase productivity, as already mentioned, to an industry "received wisdom" figure of DM 120,000 revenue per employee per annum. The increased productivity figure was introduced through a revised budgeting process which moved away from "top down" budgeting to a "bottom-up" method whereby the individual middle and profit centre managers shaped *their* budgets to obtain the productivity increases. The coopting of support through a "bottom-up" budgeting system brings with it a positive force to accept change, as alterations are seen as *ours* not those of an impersonal Commercial Department. Added to this is the fact that one third of the company was owned by its management, therefore acceptance of hard decisions, such as layoffs, received backing out of pure financial self-interest. External forces for change included client requirements, technology and the labour market. In pre-reunification times errors and inconsistencies were tolerated as payments for the extra work usually gave the contractor an extra source of income and the customer was just glad to get anything done at all. The delivery time of the work has gained in importance. Formerly it was just the state's money that was tied up, now the opportunity cost of this foregone interest is well understood by the customer. To cut into delivery times required a move to CAD technology, indeed some customers started insisting on delivery of documents on diskette. In the immediate aftermath of reunification and as a result of the massive government infrastructure transfers, there was a shortage of qualified people in the construction engineering industry. Several years down the road, the demand has dropped substantially, but as in most industries it is the unskilled, or semi-skilled workers who felt the pinch first. Skilled workers were lost when they left to form their own offices and thus became competitors. Although in the mid-90s the labour market is very much a buyers one, it behoves any firm to protect its human resource competitive assets. The best way to do this is to simply offer some form of job security in the face of mass redundancies all around. Here Acerplan have been

relatively successful, as the major cuts were made just prior to take-over and subsequent cuts have been smaller and justified by market conditions, not just endemic overmanning.

Barriers to change. Once again it is helpful to group these variables into external and internal headings. According to Mr. Yaw, one of the greatest external barriers to change is German worker participation and employment protection legislation. A firm like Acerplan with over 300 staff is legally required to establish a *Betriebsrat* or works council with full time representation paid for by the company. The *Betriebsrat* has legal right of consultation and in many cases power of veto on issues such as organisational restructuring e.g. the merger of two divisions or transfer of staff between divisions. There were other companies researched in the course of this dissertation which looked upon the *Betriebsrat* as a communications possibility to get the message right down through all the layers of the organisation. The Acerplan attitude reflects one extreme of the debate occurring in the late 1990s in Great Britain about the pros and cons of signing up for the European Union's Social Charter. The Social Charter embodies in law the rights of workers to have works councils, similar to the laws already existing in Germany. Employment protection legislation provides effectively last in - first out policies in redundancies. This means that younger, more adaptable staff must be laid off before older, less flexible time servers, hence the average of 10 year older employee in the German Acer affiliate. Maternity leave is generous with requirements for jobs to be held open for two years, maybe one reason why the Acerplan management were concerned about the high percentage of female workers in their firm. Sick leave entitlements in Germany are also generous, which could become critical given the age profile just mentioned.

Internal barriers to change included a total lack of staff in the Personnel Department with any training or experience in staff appraisal and development and also familiarity with change management programs. This was a common problem amongst East German M&As. Under the old regime there was a sort of Personnel Department - the *Direktor für Kader und Bildung* (Directorate of Leadership and Development). However its tasks were quasi-political, ensuring political education in the workforce and an adequate supply of labour for the combine, (Lang & Lippert, 1990). Additionally

certain social service obligations were handled by this department within the firm, e.g. supply of housing, nursery school, medicine, holiday homes. These obligations are in the western world the problems of government or the individual, not the firm.

Interestingly even academics in the DDR had little idea that these functions were different from those performed in a modern western firm's Personnel Department. Stieler, 1990 explained the East German *Direktorate of Kader & Forschung* concentration on a process called *Arbeitsvermögens*. This concept, roughly translatable as workforce potential, is made up of the planning of each individual's potential work capacity via a complicated check list of physical and psychological factors. These factors are then given a numerical weighting which is divided into the combine's output needs to give manning levels. The efficiency of this mechanistic approach to ensuring adequate labour supply is probably reflected in the average 80% reduction in manpower witnessed in the privatisation of most combines.

The Marketing (or change) Plan

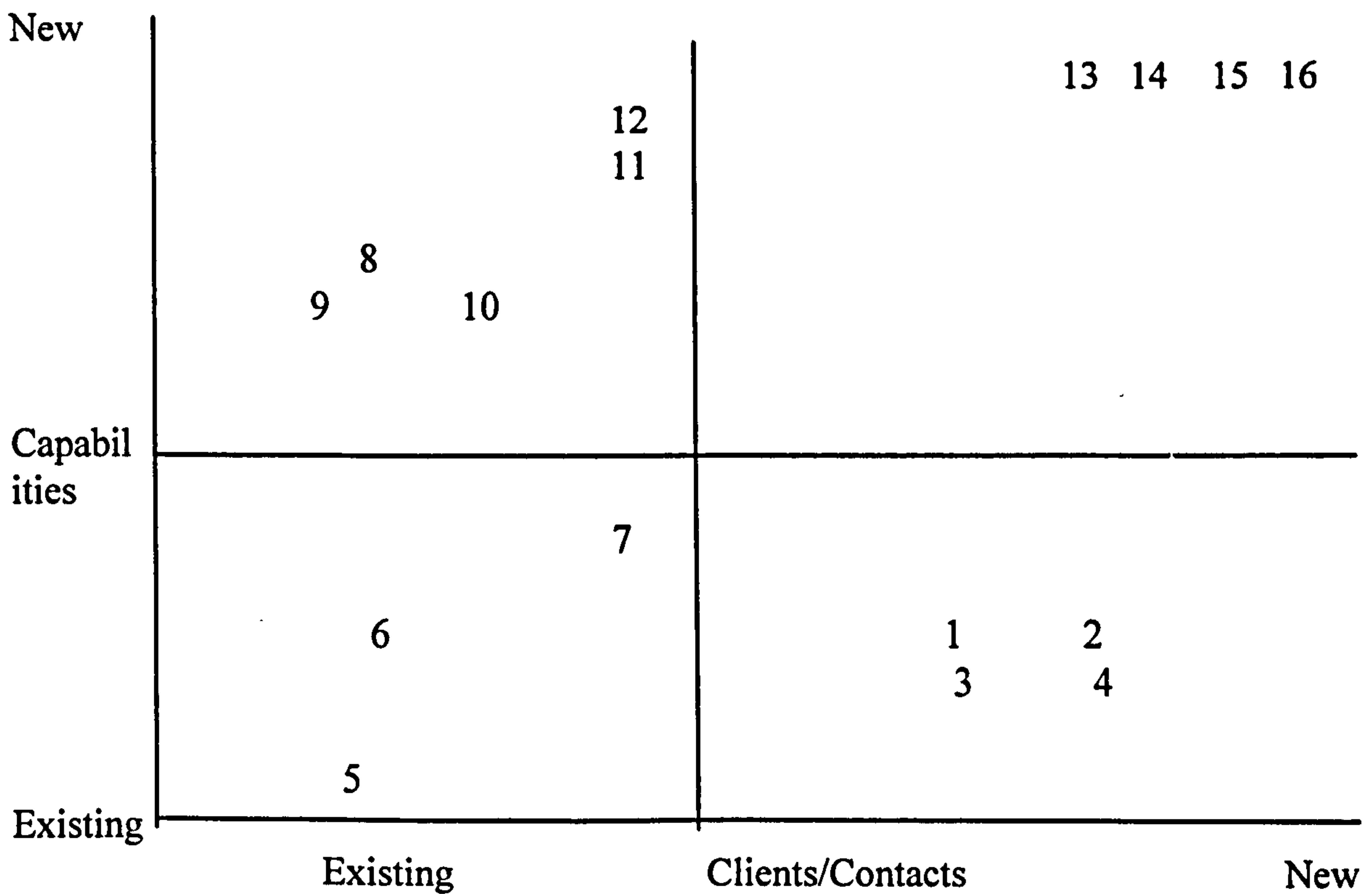
Having conducted the classic audit of internal strengths and weaknesses, the SWOT exercise, plus external opportunities and threats and identified the internal and external support of, and barriers to, change, Acerplan moved forward into the "unfreeze", "move" and "refreeze" sequences of their change plan, in this case called the marketing plan. The choice of name for the plan seems not to be of coincidence. Management saw as critical the need to incorporate marketing and attitudes appropriate to marketing in a competitive environment into the company culture at the end of the three phase change process. The active involvement of Acerplan staff implied the first stage of a more participative management style and a step towards becoming a more market-oriented company. Output from the marketing plan affects future changes, including the adjustment of the existing organisational structure, e.g. to respond to newly identified market segments. The marketing plan was prepared between June and December in 1992, and, after Board approval, was implemented in 1993.

In all there were 7 elements to the change plan.

1. Marketing element - The firm should reinforce efforts to differentiate itself as a "one-stop" multi-discipline firm. It should focus on 16 market segments defined by technical discipline as presented in Figure 5-5.

Figure 5-5

Stages of development of Acerplan Services



Key to services as shown in Figure 5-5:

1. Industrial Building
2. Commercial & Residential Building
3. Service Buildings
4. Building Services
5. Basic Civil Work
6. Construction Supervision
7. Town and Regional Planning
8. Eater and Waste Water
9. Major Roads
10. Bridges
11. Environmental (non-scientific)
12. Transport Planning
13. Railways
14. Environmental (scientific)
15. Tunnels
16. Ports & Harbours plus Canals & Waterways

The prioritised targets of the marketing element of the plan were:

Priority 1 - Market Penetration. Maximizing the current staff utilisation by selling more of the existing product to current and potential clients in fields 1-7 of Fig 5-5.

Priority 2 - Service Development. Improve Acerplan's embryonic skills by using Acer's strongest international track record in supporting current and potential clients in fields 8-12 of Fig 5-5.

Priority 3 - Diversification. Introduce services where Acerplan had no know-how but where the parent Acer Group had an established and growing reputation. i.e. current and potential clients in fields 13-16 of Fig 5-5.

2. Structural and Cultural Element.

As the organisation structure had been altered under the THA regime to include such innovations as profit centres, the resultant structure was deemed relatively compatible with Acerplan's strategy and therefore "reorganisation" did not form part of the change plan. However as already stated it is difficult to move staff resources between profit centres, so the plan detailed early and active involvement of the *Betriebsrat* in smoothing moves. To achieve cultural change a batch of educational, recruitment and reward structure initiatives were proposed. Quality was to be emphasised by the aim of achieving a company wide quality assurance system which could be sanctioned by the independent DIN 9001 external certification.

3. Product.

The plan aimed at securing a higher proportion of work in the more profitable "front end" via improved contacts to developers. This means being prepared to undertake conceptual design for which one or two western trained architects would need to be recruited. Investment in CAD had already taken place but training was necessary, not for the hardware operators but for engineers and middle management.

4. Pricing and Cost Control.

Tendering has to move from price (set charging) to cost. Managers had tended to abuse the job costing system by evening out results between profitable and unprofitable jobs. This practice seems to be a typical hangover from the old combine system, where most of the costs were artificial transfer costing between vertically integrated elements of the combine. As such costs were seen as relatively unimportant and a good opportunity to smooth results out to the ultimate goal of plan fulfilment.

5. Geographical Diversification.

The heavy reliance on the home base of Halle should be reduced by transfer, non-replacement of retiring and leaving staff and outplacement. The priorities for geographical expansion were: Upgrade the existing Dessau and Dresden offices, open a Berlin representative office, by 1994 open one office in the old *Bundesländer* to counter the image of an "East" firm and one project related office in the CIS States.

6. Promotion.

The quality of corporate documentation has to be improved. 200 professionally printed description sheets of finished projects would form the base of tailored presentations to target clients. Staff enrolment in professional bodies and activity at conferences needs to be bolstered by reimbursing professional membership fees and offering an internal prize for the best company produced paper.

7. Systems.

Reinforce the following systems: Quarterly action plans for each Division, Client contact reports, tendering analysis to include results, tender/contract conversion success rates, tendering activity by Division. To induce more "bottom-up" involvement, the responsibility for formulating quarterly action plans and generating monthly reports should be delegated to the profit centre managers and bureau leaders.

The Market (or change) Plan Results

The point is usually forgotten but survival is a positive result. Acerplan still is operating in 1997, even though the relatively positive construction market demand immediately following reunification has given way to a buyer's market. The market plan set priorities about which market segments the firm should be in. The market plan was introduced just as the change to a buyer's market was underway. The 16 market segments have developed in a different way than was expected. Specifically, the Government civil engineering work did take place but increasingly on the basis of competitive bidding. The expected parallel growth in private sector investment never occurred. Against this negative trend in the external environment the achievements of the market plan are probably like opportunity costs. Without the change program, Acerplan could well have disappeared. Rationalisation of property holdings has taken place, but the expansion to other Bundesländer has not been a success. New office openings coincided with a depression in the construction market and the for example the new Berlin office had to be retrenched. The one time relatively important trade with CIS countries disappeared as these countries could not summons up enough hard foreign currency, formerly the trade had taken place in transfer roubles.

Internally the plan seems to have had some success. A far greater number of people within the organisation have come to understand the importance of marketing and their role in it (this was borne out by comments in the personal interviews). The cultural changes have, however, not been fully achieved. This is hardly surprising given the difficulty involved in changing ingrained, long-held values and attitudes, (Bate, 1994). A new round of the cultural change program was in the planning stage during the researcher's visits to Halle in November 1996. What the interviews did show was that the staff felt free to offer their opinions, thought that their suggestions were listened to and generally seemed to identify well with the goals of the firm. These points are important for this research as they show that not only is two-way learning possible, at Acerplan it has been practised. Although financial profit figures are not available, they are probably only fairly modest. So why is then Acerplan used here as an example of a successful M&A? The answer is plain when it is contrasted with what has happened in

other similar East German M&As, such as UTAG (Thames Water) or Tricat the subject of the next comparative case.

5.5.2 Case of poorly handled M&A - Tricat Kataleuna GmbH

As has already been pointed out, it is much harder to obtain agreement to carry out research and receive co-operation from a firm that is not doing too well. Consequently the case on Tricat Kataleuna GmbH is not backed up with company documentation, nor does it have the blessing of the management for reasons which will become obvious. The case is structured into contradictory views about what went on. The very fact that there exist such opposing views of a common reality, split between American management and German staff, says mountains about the depth of the problems. No criticism of individuals is intended and although the M&A was terminated after three frustrating years, it is possible that the rump firm will raise like a phoenix from the ashes

History up to the purchase:

From the German employees' viewpoint -

Professor B. of the firm expressed it so: "Kataleuna's history is that they were naturally part of the Leuna Kombinat producing and developing catalysts. But in 1995, 01.01.95 or actually at the end of 1994 as it was back-dated, the division of the Kombinat making catalysts was split off by the THA and set up as a stand alone GmbH - Leuna Katalatoren GmbH. That happened in many areas of the combine here in Leuna. The THA then privatised the new GmbH in such a way that the American firm Tricat was able to take over our firm. Since 15.08.1995 we are part of the Tricat Group with a peculiarity in that the organisation which took over the functions of the THA, The *Bundesanstalt für vereinigtebedingte Sonderaufgaben* (The Federal Office for Reunification Issues), kept 25% of the shares in this GmbH. That means that the BVS has a minority right in boardroom decisions. That's a very short history of this firm.

May I throw in a few figures. We had 470 employees in 1990 at the time of the introduction of the DM. After privatisation we took over 130 no 100 of these 470. Last November (1995), there was the last batch of redundancies where another 30 people lost their jobs. These ex-colleagues who lost their jobs, and we've already mentioned this, had to leave without anything approaching the pay-off that you received or that a comparable West German firm would offer."

From the American management viewpoint -

Tricat is a private American company with HQ in Baltimore, Maryland and was attracted to East Germany by the THA offering a site at Bitterfeld. As part of the industrial resurrection of the heavily polluted, smoke stack region around Bitterfeld, the THA was developing industrial parks on reclaimed ex-industry land. Tricat was offered a green field site (actually re-greened) to build a factory to reprocess used catalysts. During the negotiations for this Bitterfeld, green field site, the company's President Dr. K. Maher was offered the possibility of viewing a portion of the massive Leuna Refinery complex that had been split up and belonged to the THA owned firm Kataleuna GmbH. The THA were very keen to keep the firm's large research team together and as such were prepared to invest quite a lot of money. The business at Leuna produced catalysts as opposed to reprocessing them. As the THA were prepared to foot the bill, the deal when finalised included the THA being a 25% partner and they brought in their own Managing Director. The green field site at Bitterfeld was also purchased, this time as a 100% Tricat operation. A new reprocessing factory was built and operated as a separate firm. This operation has been quite successful and continues under Tricat ownership.

Post Purchase History:

From the American management viewpoint -

The THA installed a MD who was in the words of the American President, incompetent. The West German MD worked only on a part time basis and never moved to live in the Leuna area. Although the THA had reduced the workforce to around 100 employees from 450 when the firm was part of the combine, a further reduction was found

necessary within a period of sixty days. This short period was all that was allowed for due diligence and so the personnel reductions were made with no idea about who was worth keeping and who wasn't. Additionally it was almost impossible, as was the case in many other take-overs, to obtain dependable revenue and cost figures. Cost and revenue accounting just didn't exist, and those figures that were available were not dependable and included impenetrable cross subsidies and transfers to the parent combine. The American management quickly came to the conclusion that the old industrial plant that they had inherited was not worthy of upgrading and began work on designing a new production facility which was to be built on waste land available after knocking down some of the many derelict buildings, i.e. it was a brown field site unlike the green field one at Bitterfeld. The money for any upgrades was coming from the THA. However the American president of the parent Tricat wanted to bring in new product lines which entailed investment in new plant and the hiring of American and West German experts. The THA whose wish it was to protect what was there, stopped funding anything to do with new products needed for diversification. The M&A folded, and Tricat Kataleuna GmbH went back to 100% THA ownership and is now once again up for sale, although the West German chemical concerns who would be the obvious buyers have already turned up their noses at a purchase before Tricat came on the scene.

Contrasting views of strategic decisions

As already stated the American management came to the opinion that the existing factory buildings and plant were not worth upgrading to meet modern standards. The reasons and necessity did not seem to have been communicated to the employees, witness the following quotations out of the group interview:

From the German employees' viewpoint - Interview # 30

58. Up to now we've had no new investment (interjection from Dr. G.). To get used to the computers was an easy process for all. It just wasn't a problem. There are new measurement techniques in our laboratories, we had to introduce these as we have such a reduced headcount and we wanted to remain efficient. What about you in production, Ebert?

59. Herr N. - We don't have any new process to make the work any lighter. Its remained exactly so as it was before.

60. Prof. B. - (ironically) Not too many new files have arrived either.

61. Dr. G. - What we've got we already had. There not been anything new up to now as its expensive. Its the firm's philosophy to build a completely new plant. They don't want to invest anything in the existing plant.

There seems to have developed an extreme attitude of mistrust between the American management and East German staff. To an innocent question about learning English, the following bitter exchange occurred:

From the German employees' viewpoint - Interview # 30

66. Thomson - Do you still have to learn English?

67. Prof. B. - Yes, especially those who were chosen to be part of the graemium who have a lot to do with management, we had to. I think that's the biggest problem we are facing, at least here on this floor of the office, the fight to understand what on earth they are saying. It is possible with those who speak a clear English, but those who often use a southern states slang are often difficult to understand and therefore to reply to.

68. Thomson - I only have heard of Dr. K-M and assumed he was the only one.

69. Frau B. - Ha, ha (everyone laughs ironically), the top management is full of Americans.

70. Prof. B. - The whole K. -M. family is here, his wife, nephew, son in Bitterfeld (also belongs to us), then Manfred, Singer, McAlan, McAuley, but Mrs Kass she speaks German, yes its packed with Americans.

71. Thomson - I am somewhat surprised as that doesn't sound like the normal actions of Americans.

72. Prof. B. - We are getting more and more Americans

73. Thomson - OK, but honestly I had expected the complete opposite. I've been in firms which were taken over by Americans, they sent over perhaps a managing director and that was all. Have you had any West Germans hired?

74. Prof. B. - One, Herr Schmitt

It is probably to be expected to see some bitterness at watching the workforce be decimated from 450 to 70, but at the same time seeing the plum jobs going to Americans, with a whiff of nepotism seemed to have raised active hostility. There may have been good reasons for this development but they certainly were not understood by the staff. The feeling of mistrust was obvious to the researcher. Tricat Kataleuna was the only firm in this research where staff had refused to be individually interviewed. The researcher had the feeling at the start of the group interview that he was classified as collecting data for the management and it took some time to build down this feeling of antagonism and prove neutrality. The fact that Tricat did not bring in one top manager with German language capability seems to have been a big mistake. Not only were the top jobs seen as going to foreigners but to affect strategic decisions it was necessary to talk English, which immediately made the East Germans feel at a disadvantage.

Interestingly in some areas the problems were seen in the same light from both sides. In talking about the reductions in the workforce and how the people were selected for severance, the consequent over-ageing of the workforce was recognised by the Kataleuna East German staff, even though they were all "over age".

From the German employees' viewpoint - Interview # 30

26. Thomson - How did you go about seeking out the 100 people that were taken over from the 470. Did the people volunteer? (ironic laughter). I mean there are probably enough grounds for someone to think I'm going to be the next one on the line.

27. Dr. G. - Social factors were taken into consideration, also there was the normal turnover fluctuation plus some went into a well earned early retirement. The consequences of this policy are that we now have a very unhealthy age structure. Young people cannot be hired, as an example the youngest comparable employee to Dr. John working in product development is 46 years old, a 'young' academic. The next one is perhaps 50, in reality the whole workforce, with the exception of a few production workers, is in a layer from 50 to end 50 years old.

The ability of older workers to accept change has been the subject of much debate, but based on the need to forget or discard past knowledge as discussed in the learning and knowledge sector of this chapter, it is probably easier for younger people with less

investment in the past to more quickly accept a new order of things. The same problem of a "heavy" age profile was present in Acerplan but the consequences seem to have been less severe. Certainly the staff at Kataleuna thought they were still capable of adapting.

From the German employees' viewpoint - Interview # 30

63. Frau B. - At the time of the *Wende* and the introduction of the DM, the most intensive changes took place in the commercial areas through such things as new tax and cash flow systems. The normal rule of thumb was that in the natural sciences, which I don't wish to belittle here, they were carried on before the *Wende* in exactly the same way as afterwards. We only have to pay more taxes. We had to learn and understand quickly as a lot was totally different with the change of block allegiance, and that was at its most intensive in the commercial area.

64. Dr. G. - The whole tax thing, the insurance stories, controlling etc. etc.

65. Frau B. - Yes naturally we lead into the things. There were commercial firms that set up shop here, which introduced us to certain things or showed us way how to bring together the primary data, how to work with it, and its my opinion that even at our age we are still capable of learning. We did a lot on the job and I'm not too sure if some of those people in the old Bundesländer could have handled so much at such an advanced age. We even had to learn English as well.

Paradoxically, the American management were of the opinion that the staff could learn and adapt, it is therefore doubly disappointing that the distrust developed as there was really no logical reason for it.

From the American management viewpoint - Interview # 43

21. Mr. B. - Well I think there are a lot of things. By and large, the situation which we found and which we classify as problems; business or organisational problems are not of their own doing. Its the society that they came out of and *by and large I found a lot of them, most of them, willing to learn*²¹. Of course there was resistance to change, it gets you out of your comfort zone but they wanted to and new they had to learn. I found them once we broke down the reluctance to communicate, I found them very open, honest, quite honestly more friendly than West Germans. ...Like I said, their technical training was good, they needed help with what to do and how to do things. *They learned very quickly.*

²¹ Emphasis added by author

The American management also seemed to have a realistic and sympathetic view about why there were barriers to learning new methods.

From the American management viewpoint - Interview # 43

12. Mr. B. - ...before in the past there were these little empires, little kingdoms and the flow of information was very, very low, in terms of R&D for example, you would go to R&D and say, we need this, you would establish a project and it would kind of disappear into R&D, whereas in most western companies, you would get monthly reports against goals and objectives, you have periodic communications meetings. They never did any of this, you would never see a report, it would just kind of disappear and hopefully one day they would come to you and say "well we think we've solved the problem and we are ready to talk to you about it". But along the way, they would never give you a status report, because I think they were afraid that if they reported half finished work, that with open communication other people could have input and say "have you looked at this and what about that and we know our competitors doing this and maybe the market has changed a little bit or maybe there is a lack of communication here". I think they were afraid that that was going to be seen as a criticism of what they were doing so they just closed it off as a box and waited until in their mind they had done all the work. Then they would report to you and you would ask for data and information, well it was difficult to get it, OK it was basically, well trust us, we know we are right, trust us. To me it was a fear mechanism and I think a lot of it was that they were afraid that what they had done in former times was so really inferior to the west, particularly on technology and how to do things that they didn't want to admit to that and so they tended to hide all this, they were just afraid to be open and communicate because they thought it would open them up to criticism. Which wasn't meant to be directed personally at them, it was meant to be - hey look we as an organisation have a problem or an objective and to get there we are all in this boat together and we have all got an oar and every one of us needs to row this boat.

15. Thomson - ...But I didn't get the feeling that the people were stupid, they tended to be quite well educated people, I don't know what level their technological expertise was, in comparison to US researchers.

16. Mr. B. - No the people were very, very intelligent had very technically knowledgeable, the average research scientist would be impressive wherever he was. I saw it as the management of an organisation issue, in terms of how do you manage the research process. In the former times it was more or less from the bottom up, in other words as technologists they would say well we want to do work in this field, so they would do work in this field hoping that maybe something would come out of it. In the western world, one starts from the market and you are looking to serve that market. That was the thing they had a problem with, in terms of saying this is what the market needs how do I organise and manage the R&D process to deliver what the market needs, that was the failing, they had no experience of that, they didn't know how to do that. So they were used to an environment where they would invent and develop something, the

customer had to buy it from them as they were the only source. They basically used their customer as part of the R&D process, they would keep throwing it at the customer and throwing it at the customer until finally it sort of worked and then they would say OK its done. Once they developed something that a customer said OK this pretty much gives us what we want, then R&D would stop, they would never see what they could do to make it better for the customer, no follow up, and never any what can we do to make it cheaper and easier inside of our factory. It just became cast and you just by rote did the same thing over and over again. So the thing that surprised me more than anything else is I had this vision that here this society for forty years where science was premium, all these people working on science, I knew the plants were going to be crude and had to be closed, I knew they had no experience in selling, but my vision was that there was this tremendous volume of technology just waiting for someone coming in and managing it. When you really get into it, there is very little there. There is a lack of understanding of why the things they make work. It was kind of like they stumbled on things, suddenly they worked and so OK that becomes product XYZ and you do the same thing over and over again. Never developing the basic understanding of why does this product work, relating the properties and the characteristics to this product to its use by the customer. So if a customer came back to them and said well I've changed my process, I want something different for my process give me a different catalyser, our people had difficulty in saying well what is it that we have to change in order to get him what he wants because they had never developed that fundamental link between what they were making and what the customer wanted. That was the biggest surprise that I had and when I really got into it, there was a lot of facts and unrelated stuff but not this fundamental understanding of the technology.

A reason for barriers to the transfer of knowledge was also forwarded by the staff in the group interview. As already discussed in Chapter 4, the rising fear of retaining one's job was accompanied by a drop in the willingness to share knowledge.

From the German employees' viewpoint - Interview # 30

53. Frau G. - I used to try and delegate my work, now I prefer to finish it myself.

54. Frau B. - One tries to do it oneself in order to become indispensable, but that's probably not the right way to do things. The trend is there, he said it quite plainly. Its not only the production areas but in other areas as well, one keeps one's knowledge to oneself in order to somehow or other to become indispensable. Once again that's this fear of losing the job that is always in the background. Prof. B. went through our age structure, we are all at such an age that if we were to have to leave the firm, for whatever reason, we would be almost impossible to place in a new position. And we've all got a long way to go to retirement.

There was also a parallel growth in competition at work between the individual workers who had formerly been an unsplitable team.

From the German employees' viewpoint - Interview # 30

17. Herr Ni. - Now its so that each tries to finish his own work as well as possible, so that he is noticed, positively noticed and there is even a little *Schadenfreude* when someone else makes a mistake.

5.5.3 Review of differences and similarities in the two cases

Both Acer and Tricat seem to have "fallen" into East Germany without expanding internationally using any definite internationalisation policy e.g. the Uppsala model, (Johanson & Vahne, 1977). It would be interesting to speculate whether a more structured strategy in expanding internationally would have flagged up East Germany as opposed to other Central and East European economies as the best country to found a M&A.

Once the country decision was taken however, the paths of the two companies diverged. Acer took on board the existing East German managers as equity holders. This act alone highlighted to the existing workforce in Halle that they were valued, equal and were dealing with a merger not an acquisition. The effect on integration and acculturation of this initial act cannot be overstated. Tricat on the other hand went into equity partnership with the seller, the THA. Unfortunately this proved to be not such a lucky marriage as the two organisations had different goals and cultures. The THA, or more specifically its successor organisation, the BvS, is more interested in whether the terms of the sale contract are being met. Specifically whether the agreed employment guarantees and also investment levels are in place. That means that a very bureaucratic attitude is taken, described by one interviewee as dealing with a bunch of bookkeepers. The Americans on the other hand were taking a very entrepreneurial attitude, albeit with the BvS's money, and wanted to talk and formulate "big picture" and future strategy. The outcome was divergent views at Board level of the *raison d'etre* for the company. The high level mistrust trickled down to lower levels of staff in the firm. An example being that both Acer and Tricat tried to develop strategy using classic western business school techniques. The results however differed as Acerplan staff felt co-opted into the process, whereas Tricat staff viewed the whole process as "top-down" driven from a top

that was anyway not united. In these days of world travel and international business, it is easy to forget the importance of being able to communicate in a common language. Acer installed a bilingual high level executive, Tricat didn't. Acerplan had much fewer communication difficulties than Tricat Kataleuna, it could be just chance but the interviewees at Leuna indicated an irritation at being forced to learn English just to have their opinions heard, in what is after all a German environment. Both firms had the common problem of an over-average age staff, the result of the last in, first out redundancy policy of the THA. The market conditions were hardly mentioned by anybody, including the American management at Tricat. They were the main topic of conversation at Acerplan. Actually both firms were luckier than others in that the market had not completely dissipated on monetary reunion. Acerplan faced high demand in the first few years, followed by quite drastic reduction in customer interest and higher competitive pressure later. Tricat Kataleuna, as far as can be fathomed, faced a relatively constant demand with perhaps rising competition over time. The catalyst market tends to be a relatively international market like commodities.

As far as the subject matter of this chapter is concerned, there were large differences in the perception of the two firm's work forces over whether they were listened to, and could influence outcomes. The underlying basis for two-way learning.

Interview # 30

6. Frau B. -... Now we are working for a private GmbH or American firm, new managers are there, new leadership, that means that in principle our circle of influence has been demoted to the second layer of the firm and we have to bow to decisions made by this new management. I won't express it quite so hard as you did in your introduction, but I'm sure we can make suggestions to affect decisions but they always seem to come back different to when they went up.

Compare the above quotation with that from an employee of Acerplan, who realistically sees the process is not finished or accepted right through the workforce, but never the less acknowledges the process is going on.

Interview # 12

46. Herr L. - Initially talking about decision making in the combine:

That was a political decision and it didn't work. It was also what was passed down to the brigade or collective with the explanation that is what the leadership of the combine has decided. That was impossible for the employees to understand and they just did it out of discipline. There was no identification with the work, because they had been told just do it like so. It was this discipline type variant and it didn't motivate the employees. They said, OK when they have decided so, then we'll carry out the pathetic stupidity. I'm sure there are still people who think like this. However the possibility for individual success within the overall success now has a much larger role. One is always well advised to listen to someone, to say OK he has made me aware of this or that and bring it into your decision making, but I believe that is what we do. There is now more freedom of individual responsibility and contribution when solving problem. That then brings sometimes more motivation and innovation to the work. Although I must say, as someone who knows the firm quite well, that these new attitudes are not completely shared within the workforce. I cannot judge it but it may take another 6 to 10 years to bring this process to fruition. Then there are further possibilities to introduce new methods and mechanisms.

Or acceptance of flexibility in making decisions:

35. Thomson - Do you notice any difference in the latitude you have to make decisions now in comparison to before?

36. Herr E. - In principle there is more freedom there, I can nowadays argue in a different way. I am not forced to use certain building materials, I can choose them freely together with the builder. Previously it was dictated e.g. one storey buildings or hall constructions, there was a very small number of types because the cement works dominated. The architects, project leaders had to build using whatever was produced. There were hardly any individually planned buildings. Now one can take all the decisions individually, wood, steel, bricks, stone etc.

37. Thomson - Does that make it more difficult?

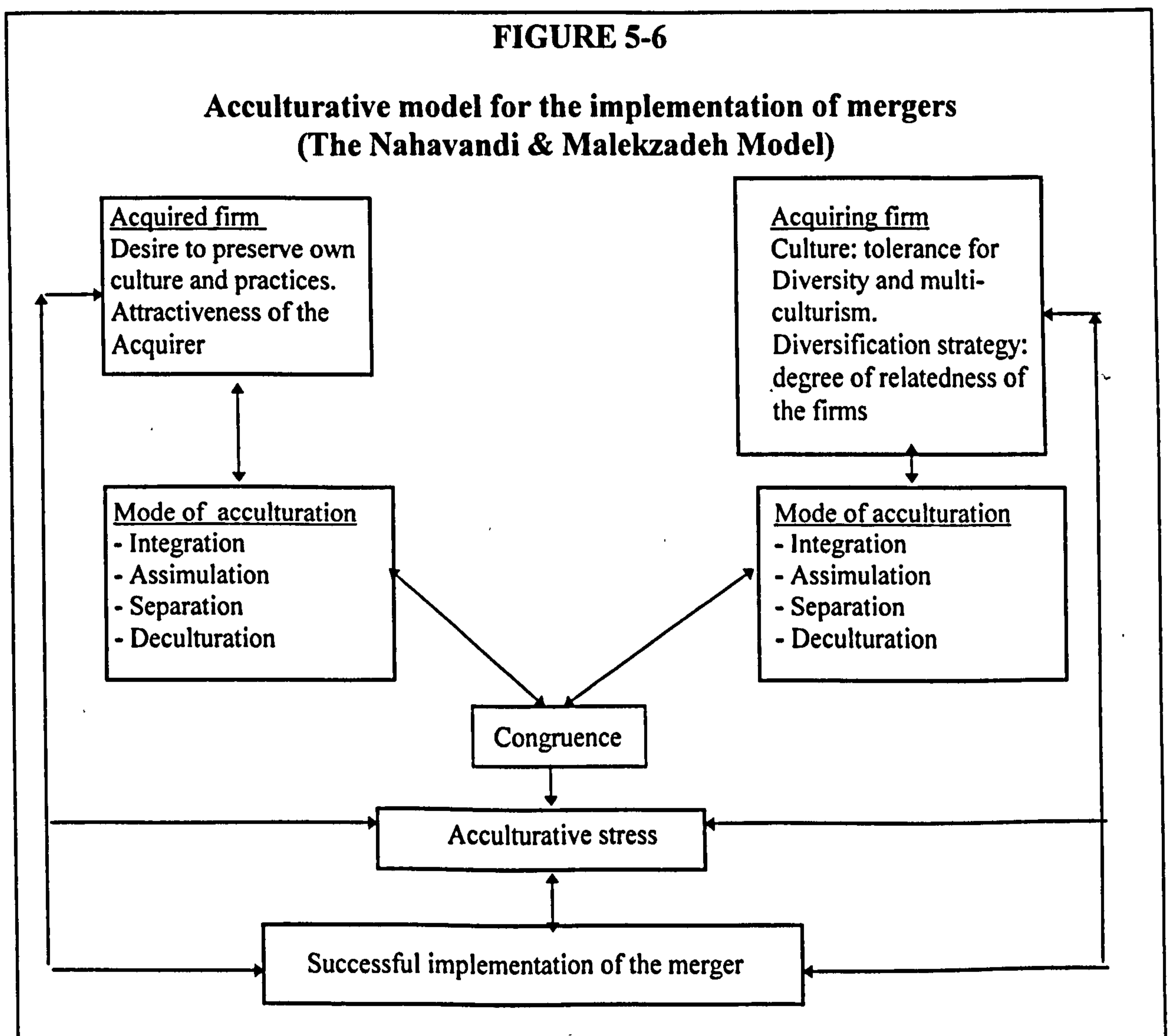
38. Herr E. - Makes it more interesting.

Or the need to consult others on a team basis:

52. Herr E. -. Only now it is more complex as previously we had sealed off areas. The excavation builders for instance just did their thing at the start and that was that. Now however a statistician or a constructor doesn't have to do too much new but he has to agree with others. That's the project team and that is needed more today. Things need to be finished quickly, inside a cost budget all that is important today.

5.6 Acculturation and two-way learning in a M&A²²

Does the dominant culture always win? The following section assesses whether differences in foreignness of the dominant culture to the culture in the East German M&A affects outcomes. The difference between two cultures can be observed by assessing psychic distance and extending this to measuring acculturative stress. A model will developed to assess the impact of acculturative stress on the effective implementation of post-merger goals and extended even further to view the implications for learning and success. The model will be based on that of Nahavandi & Malekzadeh (1988) which is shown below in Figure 5-6.



*Source: Nahavandi & Malekzadeh (1988) *Academy of Management Review* Vol. 13, No. 1, (p.85)

²² The whole of section 5.6 consists of sections taken from: 1) Thomson, J.N. (1996), *Journal for East European Management Studies, (JEEMS), Volume 1, Number 4*; 2) Thomson, J.N. & Mc Namara, P. (1997), *EGOS Conference Proceedings, CD-ROM*; 3) Thomson, J.N. & Mc Namara, P (1998), *City University Working Paper*, presented 22.04.98, to be published in 1998.

However even where acculturative stress is low a paradox can emerge which is called the psychic distance paradox. The variables in the Nahavandi & Malekzadeh model are now explained before assessing its limitations and reasons for extending it in this research.

5.6.1 Acculturation in Mergers and Acquisitions - The intermingling of two cultures is called acculturation, a term borrowed from anthropology (Berry, 1980). When two firms combine then two cultures do so as well. These cultures can be either national, organisational or as in the case of this study, both. Cross-national M&As have by definition to combine differing national cultures with varying levels of psychic distance (O'Grady & Lane, 1996) alongside differing firm cultures, a process called double layered acculturation by Barkema et al (1996). Psychic distance is not synonymous with nationality. O'Grady & Lane (1996: 312) extend the normal view of psychic distance as a measure of national cultural divergence to include structural (legal and administrative systems) and language differences as well. There seems to be an appreciable psychic distance between West and East Germans although they both now have common German passports, see (Lang, 1994; Thomson, 1996). Because of this inter-German psychic distance paradox, there are inherent difficulties in trying to simplify the measurement of psychic distance in East German acquisitions down to West German and non-West German (foreign) take-overs. Many of the foreign M&As were negotiated, co-ordinated and operationalised by the West German subsidiary of the mother company. Can such a take-over be then categorised as a foreign purchase? Even if this is the case, does this necessarily mean large psychic distance? Even when no West German subsidiary existed, the foreign firms often hired in West German professional managers to run key areas in the acquired company. There is obviously a continuum of foreignness reflected in psychic distance measurements, running from extremely foreign through to almost West German. Each of the M&As therefore fits onto a psychic distance continuum reflecting:

(a) the number of imported managers - the bigger the number of home country and third country managers, not very prevalent in the sample, the more foreign the classification. More relevant was the number of imported West German managers which reduced the foreignness classification. Latest research (Lang, 1997) shows that even though absolute numbers of foreign or West German managers operating in East Germany may be small,

they tend to be operating at the highest level and in the most critical areas (finance, marketing, strategy). Also in the formula was:

(b) the influence of any West German subsidiary, both at the time of the M&A and also at the present.

Even this differentiation between national and organisational cultures does not encompass the whole complexity of foreign M&As. Very et al (1996:60) investigated the matter further under the heading of acculturative stress. Acculturative stress being not just the difference between '*what was*' before the M&A and '*what is*' afterwards. It occurs when expectations of some proper state of affairs as to '*what ought to be*' are not fulfilled (David, 1977). Acculturative stress need not be a negative factor, as is well known some sort of stress is necessary for life in general and commercial development in particular. Indeed Very et al (1996) found that 'to the extent that the buying firm's culture better addresses the acquired firm's normative expectations, differences between the two cultures may sometimes signify sources of acculturative attraction, not stress'. So the forces at work depend upon expectations not necessarily on the reality.

Interviews in this research showed again and again that the East German expectations of what western firms could offer in the way of new machinery, equipment, training, technology etc., were utopian. The idea that everything was better and more modern in the west was a typical phenomena of forced isolation and the resultant lack of knowledge. The reality of mass lay-off, disappearance of customers and western managers who proved to be fallible, like all humans, was a shocking realisation (Maaz, 1993).

5.6.2 Types of Acculturation

There are four possible types of acculturation according to Mirvis/Sales, 1984 as shown in Table 5-3. Each typology has two variants and although there are only certain variants which were identified in the research data, all are explained for thoroughness.

Table 5-3
Types of acculturation

- **Integration** - The acquired firm has pride in its distinctiveness and lives in peaceful co-existence with the new owners.
 - Pluralism, when more than one cultural group is present in an organisation.
 - Multiculturalism, in addition to pluralism the diversity of cultural groups is valued.
- **Assimilation** - Assumes that keeping the institutions and cultural patterns of the dominant group is standard.
 - Melting pot, when the acquired firm moves freely to the culture of the new owner.
 - Pressure cooker, when the movement is coerced.
- **Rejection** - The premeditated separation of the two cultures either by the acquirer or the acquired.
 - Withdrawal, self-segregation or flight.
 - Segregation, group distinctiveness and separation are enforced by the dominant owner.
- **Deculturation** - Giving up the original culture but not taking on the new dominant culture, thus remaining outcasts to both groups.
 - Marginality, people in the acquired firm chose to remain outside both cultures.
 - Ethnocide, people in the acquired firm are forced to remain outside both cultures

Each acquisition was discussed in the field interviews used to form cases and was classified using the Mirvis & Sales typology. This was the starting point of extending the Nahavandi & Malekzadeh model for measuring acculturative stress and successful post-acquisition goal attainment.

5.6.3 Operationalisation of the Data

The data, which are summarised in Table 5-4 below, were analysed using the following criteria to assess different degrees of foreignness or different classifications of acculturation.

Foreignness (Psychic Distance)

High Foreignness: - % of non-German top managers imported to run the firm is above 25% of all top managers. Not found in any of the sample, but almost so in Firm "F".

- No West German subsidiary influence.

Low Foreignness: - % of non-German top managers imported to run the firm is below 25% of all top managers.

- Presence of a West German subsidiary which involved itself in the affairs of East German acquisition.

Acculturation - A subjective classification based on the comments of interviewees

Integration - over 50% of the interviewees reported retention of original firm culture and few power struggles with new owners

Assimilation - over 50% of the interviewees reported loss of old firm culture and imposition of new owners culture.

Rejection - Both acquirer and acquired interviewees mentioned separateness of cultures as being a problem.

Sub-divisions of Acculturation

Pluralism - over 50% of the interviewees stated their original culture still existed

Multiculturalism - Pluralism plus managers reporting that they valued the diversity

Melting Pot - over 50% of the interviewees accepted the move to a new organisational structure and culture as inevitable

Pressure Cooker - over 50% of the interviewees said they were forced into a new organisational structure and culture.

Withdrawal - "Them and us" terminology used by both management and employees.

5.6.4 Stress and Change

According to Huff, Huff & Thomas, (1992), change takes place when stress (the dissatisfaction which signals the need for renewal) overcomes inertia (commitment to current strategy). The idea of change being the outcome of the interaction of forces of stress and inertia is based on the concept of force field analysis from Lewin, (1947). Here change is evolutionary and incremental (Quinn, 1978) in nature, so long as the opposing forces are matched and moderate. However with major environmental or internal change forces occurring, stress and inertia will be anything but moderate and will not cancel out. Here change is sudden and revolutionary. Miller & Friesen, (1984) call it a quantum leap. Strelbel, (1994) created an example of a general model which shows both revolutionary and evolutionary change together but separated by having break or turning points.

CEE firms subject to M&As have been exposed to massive levels of both external (due to the fall of the command economy) and internal (take-over by foreigners) stress. East Germany is probably the most extreme example of abruptness, due to the factors discussed in the introduction. At the other end of the spectrum some CEE countries have, until now, experienced levels of stress which have only caused evolutionary change, e.g. Slovenia (Whitley et al, 1997).

To summarise, all East German M&As have experienced massive external stress and thus have the potential, if they survive, to successfully accomplish revolutionary change or transformation. Incidentally it can be theorised that comparable M&As taking place in western economies have lower levels of stress (especially external) and thus less potential to transform themselves. However the six M&As researched showed varying levels of post-acquisition internal stress (acculturative stress). What level of acculturative stress is needed to complement the high external stress to ease the transformation process? A model based on Nahavandi & Malekzadeh will now be developed in 5.6.6 to address the link between acculturative stress and possible future success.

5.6.5 Limitations of the Nahavandi & Malekzadeh Model

The Nahavandi & Malekzadeh (1988) model as shown in Figure 5-6 was based on purely theoretical considerations. The fact that the authors did not test out the model in the field is a major shortcoming. Secondly, the Nahavandi & Malekzadeh model does not specifically address M&As crossing national boundaries. Finally, the model assumes a 100% take-over, whereas smaller percentages of share holdings are possible. Given these shortcomings it was decided to extend the Nahavandi & Malekzadeh model to overcome these limitations which are critical to the research in hand in East Germany. The Nahavandi & Malekzadeh model used Mirvis & Sales (1984) typologies of acculturation and these have been explained above in Table 5-3. These are used for a starting point for refinement and extension.

5.6.6 5 Forces Influencing Acculturative Stress

Five forces were identified from the literature and field data which were found to act on and influence the type of acculturation described by Mirvis & Sales (1984). It should be duly noted that from here onwards the model has been extended by *inducing* connections from results in the field as well as from the literature. These forces are overlaid on the original model shown in Figure 5-6. They are all independent variables modifying the type of acculturation (the dependent variable) but also influencing one another making it impossible to assign weightings reflecting their importance, causal effects etc. The inter-connected five forces are: mode of acquisition, psychic distance, new managers, varying expectations and time since acquisition. The first four have already been introduced and discussed above in 5.6.1. The fifth (time since acquisition) is important for all M&As as time allows other forces to run their course achieving a type of acculturation which either helps or hinders integration. However in this research, the time force was not too relevant as all the six cases were privatised at approximately the same time (1990 - 1992), i.e. 4 -6 years before the research took place. This average of five years elapsed time did allow the other forces an adequate chance to influence acculturation.

Although Nahavandi & Malekzadeh mention the culture of the acquiring/acquired firms, they do not try to measure it. Their model was extended in this research by questioning

the opposing sides as to their own views on the organisation culture of their own or acquiring firm. These questions included ones slanted towards assessing readiness for change, as well as classifying the reigning organisational culture.

Although it is not possible to say which force is most important (due to their inter-connection), some of the five forces are more tightly intertwined than others. Mode of acquisition, for instance, probably influences the existence of large or small differences in expectation. Co-ownership by definition includes some of the acquired firm's management in setting up and running the M&A. Therefore the expectations of these stakeholders tend to be more parallel with those of the acquirer as they have been exposed to each other throughout the negotiation process and face a reduced agency problem. Similarly psychic distance and the presence and background of new managers are probably closely associated variables. The existence of a West German subsidiary which took part in the negotiations and supplied managers to operate the M&A can reduce psychic distance, although the psychic distance paradox is always lurking in the background.

5.6.7 Assumptions for the Model

Section 5.3 produced three working assumptions which can be summarised under the general question: *Does the dominant culture always win?* The three working assumptions are repeated at this point just prior to starting discussing the model, to stress their relationship with the model and *vice versa*.

Working assumption 1: *Where the acquirer (in this case a Western firm) is financially and technically strong, any acculturation takes place on the acquirer's terms.*

Here the model needs to be able to measure type of acculturation present in the acquirer and also in the M&A. The model achieves this via the operationalisation of the data as discussed previously in 5.6.3.

Working assumption 2: *There is more opportunity for the Eastern culture to influence the incoming Western culture when co-ownership exists.*

The model includes the existence of co-ownership or not and additionally through measures of acculturative stress addresses the ability of the Eastern portion of the M&A to influence the Western portion.

Working assumption 3: *When there exists an equal relationship with low acculturative stress between Western acquirer and Eastern acquired, two-way learning and information exchange is the outcome.*

The model exists to measure acculturative stress be it high or low. It will be even further extended in section 5.7.2 to address the topics of learning and information exchange.

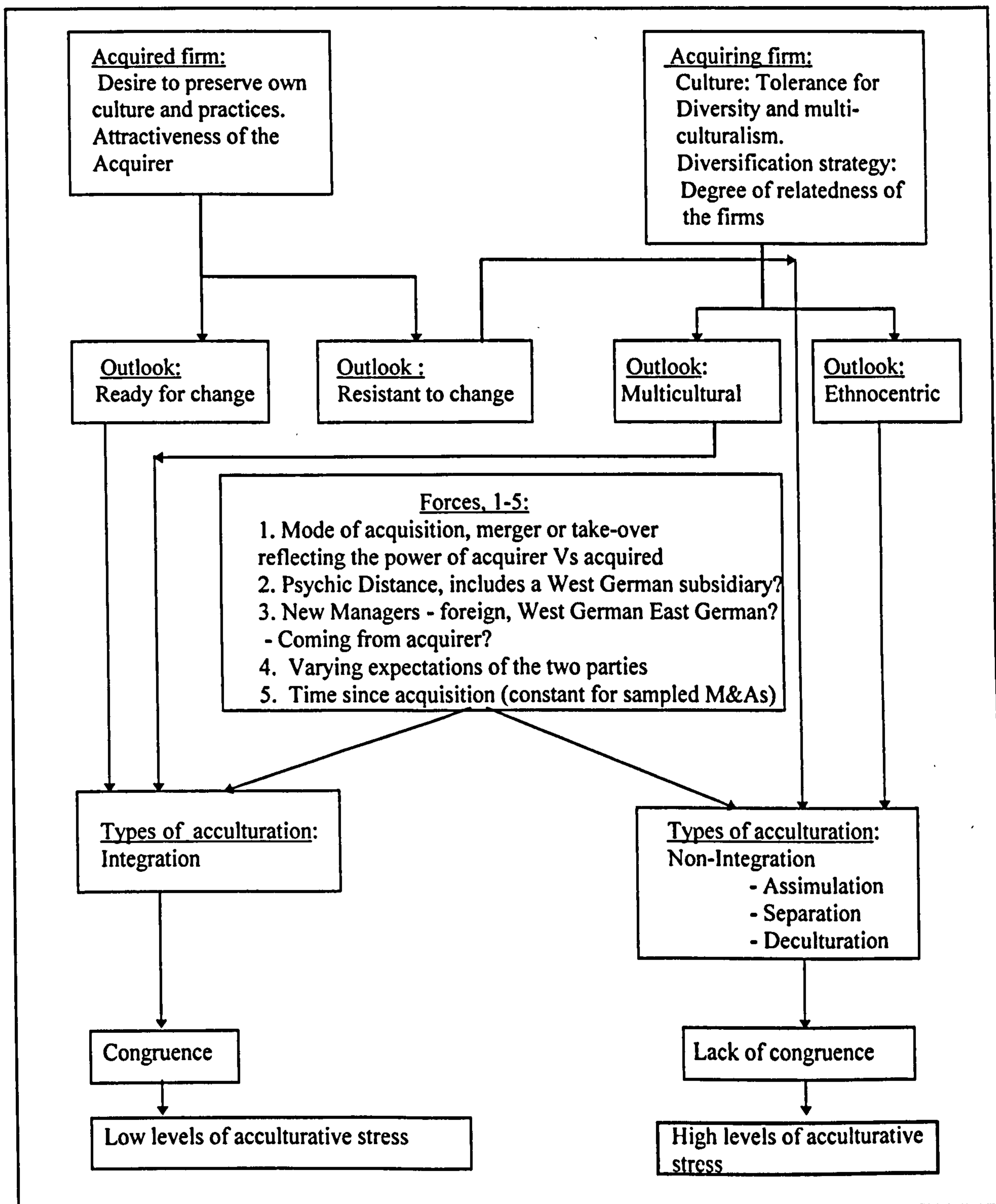
So the first two of the three working assumptions will be examined using the model shown in Figure 5-7 and assumption 3 using Figure 5-8.

5.6.8 Model for Assessing West/East M&As

The model itself is an extension by the author of Nahavandi & Malekzadeh (1988) and contains: the culture & outlook of the acquiring/acquired firms; the mode of combination (merger with co-ownership or acquisition), the type of acculturation and five other forces on the M&A.

FIGURE 5-7

**A model of factors affecting acculturative stress
(The Original Model)**



* Adapted from that shown in: Nahavandi & Malekzadeh (1988); Thomson (1996)

The outcomes of assessing each of the six researched M&As via the model introduced above in this section are shown in Table 5-4 in the results section 5.7.

5.7 Results and Analysis

This sections contains not only the results of assessing the six M&As via the original model and their subsequent analysis, but also an extention of this original model to include factors deemed important in affecting the long term health of the M&As.

5.7.1 Results

Table 5-4 summarises, for each case interview source, the various categorisations of the input to the model. The output being a measurement of acculturative stress which is assumed to then run on to cause success or failure. Actually this last stage is not so simple, hence Table 5-4 does not show success/failure. As would be expected in qualitative social science research, claims of causality are extremely suspect. The link between acculturative stress and success or failure will be visited in more detail shortly. We need to pay more attention to the final column in Table 5-4, intensity of acculturative stress, as it turns out to be an imprecise predictor of success or failure

The results in Table 5-4 are analysed in section 5.7.4, however it is worth noting here the split between independent and dependent variables and the directional arrows at the top.

Table 5-4

Summary of Factors Determining Acculturative Stress

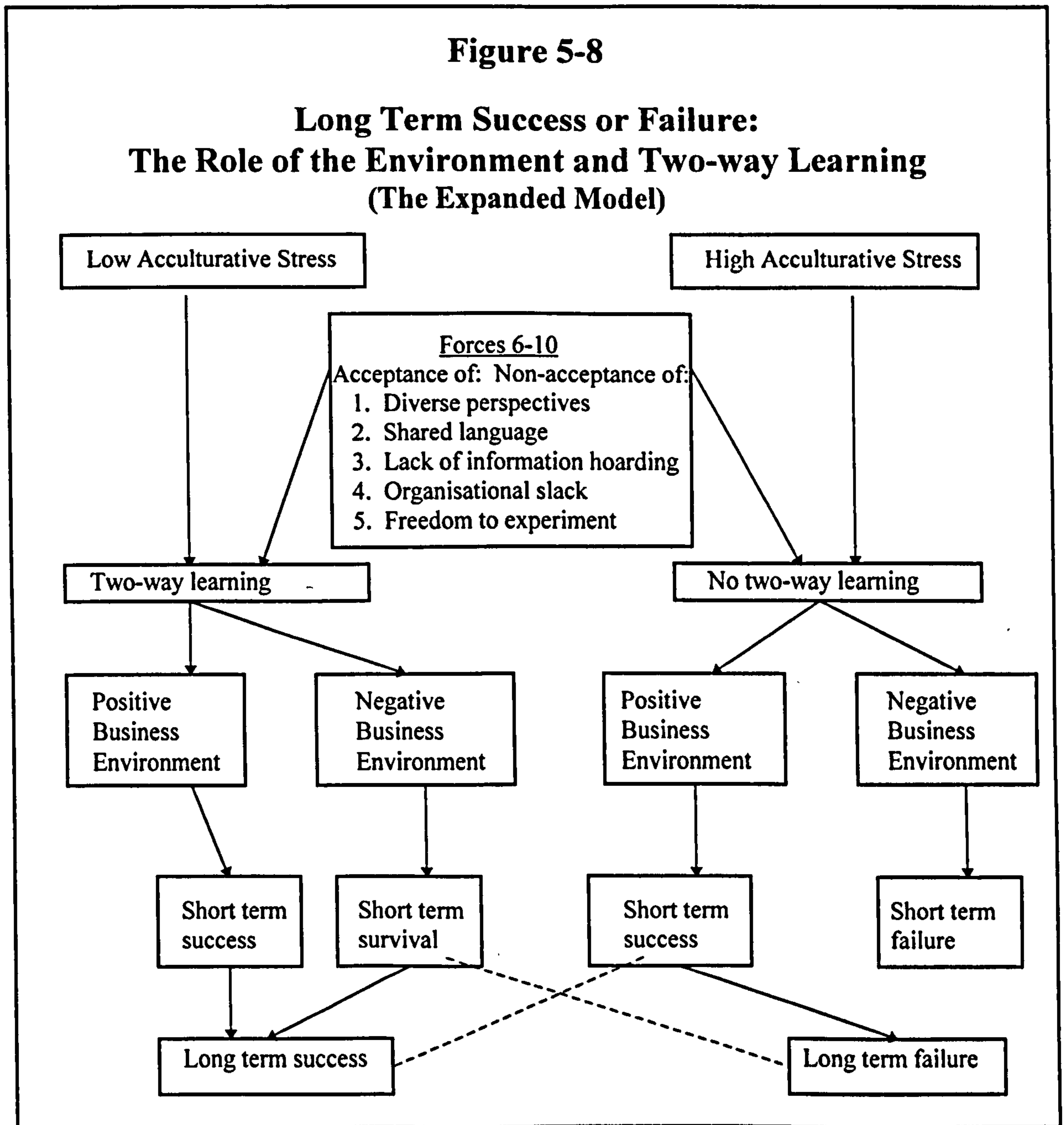
		Independent Variables				Dependent Variable
Direction of influence		←-----→				←-----→
Source	Co-ownership or Acquisition without any	Psychic Distance	New External Managers	Varying Expectations of Differences	Acculturation plus /Sub-Division	Intensity of Acculturative Stress
Company A (US)	Acquisition	High, no West German subsidiaries	CEO only US, rest East German	Large	Integration/Multicultural	Medium
Company B (GB)	Acquisition	High, no West German subsidiaries	Very small number of West/East mgrs	Not too large	Integration/Pluralism	Medium-High
Company C Sweden	Merger (co-ownership)	High, no West German subsidiaries	At start one Swede. Now only East Germans	Low	Integration/Multicultural	Low
Company D (GB)	Merger (co-ownership)	High, no West German subsidiaries	One British rest East German	Low	Integration/Multicultural	Low
Company E (GB)	Acquisition	Medium, West German Subsidiary	Several from West Germany especially in key areas	Not too large	Assimilation/Pressure Cooker	Medium
Company F (US)	Merger (co-ownership but the THA not management)	Medium, no West German subsid. but West German input	Top managers from US or West German via the THA	Large	Rejection/Withdrawal	High

5.7.2 Extended Model to Predict Long Term Success & Failure

The field data, which were analysed using the model in Figure 5-7 developed earlier in this chapter, included a mixture of companies, equity holdings, nationalities and styles of management. The results of the model i.e. acculturative stress are not that useful to practising managers. Managers concerned with operations want to know if there is an onward link from acculturative stress to success or failure. Here the predictions do not seem to be always correct, e.g. Firm A is doing very nicely, although the model prediction based on the medium high acculturative stress would be for a mixed future. The reason for the lack of accuracy is that external environmental influences can sometimes be most critical not just the dominant culture. The important point which this emphasises is that *potential success or failure can be uncoupled from the dominant culture issue*. An example from the literature chapter exemplifies this point. Müller, (1993 & 1994) reviewed the case of Hochhinauf, an American acquisition, where the dominant western culture surely won and acculturative stress was high, however the firm was extremely successful. Market conditions for its lifts (elevators) products have been heavily in favour of the supplier since reunification. So although the model would have predicted potential failure, the actual turnout, up to date, has been otherwise. To put it another way, positive market conditions (the external environment) can temporarily override negative human resource trends (the internal environment). Now much of East German industry faces difficult market conditions. The continued existence of M&As like firms B, D & E, who are experiencing these negative environmental effects shows that the reverse is possible - a positive internal environment can temporarily override a negative, external one. The parallel here to the opposing viewpoints attributed (often falsely) to Porter (1979) that "the market matters, not the firm" and Stopford & Baden-Fuller (1992) that "the firm matters, not the market" is obvious. It is interesting to note that the results from this research, although totally unrepresentative, do not support or negate either viewpoint.

Does acculturative stress run on to cause success or failure? To investigate this question the model is even further extended by adding in the external business environment and the existence or not of two-way learning. The model in Figure 5.7 ended abruptly after

measuring the acculturative stress. In Figure 5.8 below, the original end point forms the starting line for adding in further variables. culminating in long term success or failure.



----- equals theoretical possibility

5.7.3 Operationalisation of the New Variables

The various intermediary boxes in Figure 5-8, which lead up to long-term success or failure need explaining and if possible quantifying and measuring. The subjects to be reviewed are: two-way learning, positive/negative business environment, short & long term. The forces 6-10 will be discussed in section 5.8.

Two-way learning - How can two-way learning be identified and measured? The presence of two-way learning seems to need the following five factors: acceptance of diverse perspectives, shared language, lack of information hoarding, organisational slack and freedom to experiment. The importance of these factors and their interdependence will be discussed in section 5.8. In the six cases investigated in this research, no formal attempt was made to measure and quantify these factors. The subject of two-way learning surfaced late in the research process, partly as a result of returning continuously to the data and reassessing it. It was only after completion of the data gathering that the importance of two-way learning was noticed. It was by then too late to ask specific investigative questions, or develop units of measure. Reassessment of the 36 discourses to find mention of the five factors gave tantalising hints that they were present to some extent in companies having low acculturative stress whilst not present in high acculturative stress companies.

Another potential way to measure two-way learning is by looking at the output, as opposed to its constituent factors. What does two-way learning produce? It will be argued in section 5.8 that new capabilities should be the fall out from a functioning regime of two-way learning. Once again revisiting the data on the six cases gives indications that new capabilities were appearing in the more successfully integrated firms (C & D). The opposite being true in Firm F.

Based subjectively on a combination of the above five factors and the appearance of new capabilities, the six case firms were classified as having high/medium/low levels of two-way learning. Obviously further research in this area will benefit from more specific, as opposed to the current subjective, measures of these variables.

Positive/negative environment - The six cases were all subject to the macro level economic effects experienced by the post-wall East German economy. However some were operating in markets protected from the general collapse in demand, e.g. Company A enjoyed a cosy utility monopoly, Companies C & D benefited at least early on from the construction boom whilst Company F had a hard to make and duplicate product with stable demand. Poor old companies B & E were being put through the mangle of

dramatic competitive pressures, as well as plummeting demand. Subjective weightings were given to each of the six companies' environments.

Short-term/long-term - It is useful here to review definitions of short term and long term. The classical economic example of the long term is the time in which it is possible to change the most fixed factor of production, often to build a new factory, (Lipsey, 1983: 223). Under this definition the short term is probably only one year or so and concomitantly the long term anything beyond that. We have taken a more generous definition of long term - the period of time long enough for all the firm's sunk commitments to come to an end, (Baumol & Binder, 1991: 493). We feel that this definition will increase the short term time span considerably, which is necessary for the conditions existing during our study in East Germany. Commitments made with the privatisation authority (the THA) locked in many new owners of M&As to certain investment and employment quotas forcing the short term in these cases up to the millennium.

Success/failure - The end stages of the above model need some explanation. What do we mean by success and failure in the long term. Many take-overs and mergers are not successful, over half fail (O'Connell, 1985). Here the firm does not still exist after 5 years and/or has changed the original purchaser. The opposite of failure is success. Success has many definitions depending on whose viewpoint is used. Profits are success for shareholders in neo-classical economics. Even under the financial definition of success, failure seems to be the norm for M&As. A study by Mercer Management Consulting published in the Economist, 04.01.1997 found that 57% of merged firms lagged behind their industries in terms of total returns to shareholders. Continued existence (longevity), Barkema et al (1996) and hence employment is success for employees and other stakeholders e.g. local government. The aim of this section of the research is to attempt to gauge the basis for future success, both profits and longevity, by looking at differences in the intensity of acculturation. The higher the intensity of acculturation, the more likely is a level of empowerment and shared vision of the remaining original management and workforce upon which future success is dependent. The intensity of acculturation partly depends on the ability of the new acquirer to recognise that there even exists differences in culture. The term psychic distance

paradox (O'Grady/Lane, 1996) has been used to throw light on this phenomena in the area of international business expansion. Psychic distance is defined as factors preventing or disturbing the flow of information between potential or actual suppliers and customers (Nordström/Vahlne, 1992). The paradox is that psychically close countries are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about differences. Nordström/Vahlne, 1992 quote the example of 32 Canadian retailers companies which expanded into the USA and 80% of which failed, mainly because the incoming management assumed similarity of conditions in the country next door including having the same language. The parallel to West and East Germany is obvious.

So as per our above definition, we have been talking about short or medium term (up to 5 years) results. What then are the critical criteria over and above acculturative stress that dictate long-term success or failure? The literature on learning links successful two-way learning to the achievement of competitive advantages. However these competitive advantages are very probably achievable mainly in the long term. So when we assess the future of these East German M&As, we predict that those with a good basis of two-way learning, will pull away from their competitors and survive even in poor market conditions, i.e. the firm matters not the industry *in the long term*. Doubters who make reference to farriers, ice makers and other extinct businesses and professions please note, that in the social sciences at least, the exception can prove the rule.

A summary table 5-5 shows an assessment of present success of the various firms, the degree of domination of the western company culture and the existence of two-way learning. Note there is no column for predicted success in the future, the end point of the extended model in Figure 5-8, however, those firms having high two-way learning are tipped as likely long-term successes.

**Table 5-5
Assessment of M&As Researched**

<i>Source</i>	<i>Assessment of present success (short-medium term)</i>	<i>Assessment of Domination of western company culture</i>	<i>Assessment of Degree of two-way learning</i>
Company A (US)	Quasi-monopoly position gives current success	Half and half	Medium amount
Company B (GB)	Not too successful, dire market conditions.	Medium-High level of opposition	Medium amount
Company C Sweden	Relatively successful	Excellent acceptance of multiculturalism on both sides	High
Company D Acerplan (GB)	Relatively successful in increasingly malevolent market	Excellent acceptance of multiculturalism on both sides	High
Company E (GB)	Environmental jolt from BSE crisis meant very difficult market conditions and little success	Half and half	Medium amount
Company F Tricat (US)	Although the market conditions are not too bad, the firm is very near failure	Western culture rejected	Low

According to the logic just described, companies C & D will have bright, long-term futures, possibly joined by companies A, B & E. Company F (Tricat) has in the meantime failed.

5.7.4 Data Analysis

Company A

- Immediate Post-Take-over Phase: The new acquisition was immediately swamped with US/GB managers to obtain a starting position management assessment. Also present was a West German consultant who gave technical advice using comparisons with similar West German operations. This phase was quite short (9-12 months) as language difficulties, cost and the quick realisation that the existing workforce was well educated and proficient led to the installation of a permanent American CEO (who did not speak German).

Company A - Consolidation Phase: Although the workforce and organisation had been substantially reduced by the Treuhandanstalt before sale, further reorganisation was necessary. The multi-layered, non-functional organisation structure was severely delayed and standardised over all sites. All remaining management jobs were offered up for filling from within the existing workforce by ballot. The motivational effect of feeling part of the selection process was deemed high. An overarching theme (safety) was chosen so that everyone in the organisation could identify and agree on a common goal.

'First we shipped some over to America to see how the work was organised there, but also so they could go to shopping malls and see for themselves the future. Then we asked them to vote for new management within the new structure. They certainly had the feeling a new era had started and they could control part of it'
Quote CEO Company A, interview 4.

- *Company A, Implications for learning.* Company A has benefited from external factors such as being positioned in a market segment which is protected and stable. These positive market trends give the firm time, a vital ingredient in short supply during the transformation process. Also it allows long-term planning and negates the need to practice knee jerk, crisis management. The problem is that the cosy, oligopolistic world of German electricity production and distribution is under attack from regulators (the EC Competition Commissioner) and alternative energy sources (Russian natural gas). There seems to be an acceptance by the American top manager and the East German employees of each different culture, but this is not the same as full acculturation. Some two-way learning is taking place, but the US president still speaks no German after 5 years and looks to the US for solutions to problems. It would seem that most of the learning takes place on the East German side, a situation which if extended well into the future could lead to East German employee frustration at their inability to affect decisions. On the other hand this relatively protected and slow changing industry has a high percentage of unskilled or semi-skilled jobs. Here the necessity for initiative and responsibility (discussed in Chapter 4) is not too high and likewise the need for two-way learning is lower.

Company B

- Immediate Post-Take-over Period: The Post-take-over period in company B lasted somewhat longer (9-12 months). A team of British managers ran the company but lack of German language capability, cost and once again the realisation that the workforce could cope led to a total British management withdrawal. The company was governed by a combination of old East German incumbents and new hire West/East Germans.

Company B - Consolidation Phase: Market conditions turned extremely difficult and further redundancies over and above the THA restructuring were necessary. However, a large investment was made in modernising at least one of the several production sites even though the increasingly competitive environment was causing losses. Workforce investment took the form of on-site English lessons, a vastly expanded internal communications system for introducing new techniques and getting across the market place problems.

'Its nothing to do with the company (B), its just the fact that the market has turned so bad and people are losing their jobs', Quote Herr R., interview 10.

Company B, Implications for Learning. Company B has many similar facets to Company A. However the market conditions are cut-throat due to heavy Eastern European and West German competition in an over-capacity industry. The ability to practice two-way learning is unfortunately swamped by the very logical fear of having no job next week. The decision to expand into East Germany seems to have been taken spontaneously, and the full ramifications of the fall of the wall (more Eastern European competition) and monetary union (instantaneous adverse labour costs) are only now sinking in. Here the dominant culture argument is not very relevant. Survival is the be all and end all.

Company C

- Immediate Post-Take-over Period: Company C differed from A and B as the THA were unable to reach agreement with the Swedish company interested in buying it. Consequently a new firm was founded and people were transferred over to this new entity once they had been terminated from the old combine, which was wound up. The core of the new management (including the new CEO) and workforce came from the old

organisation, however less than 10% of the original workers could be economically taken over. During this time the Swedes stationed a home company Deputy MD alongside the new CEO, who was the old combine Director. Much training was given in Sweden to introduce new techniques and allow first hand experience of Western methods.

'Most of the impulse and suggestions came from Sweden at that time. My Swedish co-director, was a great support for me, a big help. We also had the opportunity to review the Swedish organisation structure, working conditions and work customs.'
Quote CEO, Co. C, interview number 20.

Company C - Consolidation Phase: The new company began to win contracts and prosper. The Deputy Swedish MD went back to Sweden and the firm continues on its successful way with a very high percentage of old combine employees in all positions and no Swedish or West Germans present.

-Company C, Implications for Learning. Company C has made a good start to becoming a successful learning organisation. Its market has been benign allowing emphasis to be placed on sorting out internal resources. The Swedish management influence has been extremely supportive. They have succeeded in coopting support at all levels in the organisation, not least from the East German CEO. Much learning had taken place on the East German side, e.g. how to make presentations, bidding, CAD implementation etc. However it was not just a one way street. The Swedes had encouraged the East German management to bid for international contracts even in competition with other owned subsidiaries. The very existence of an East German CEO showed a willingness to invest in trust on the side of the Swedes.

Company D

- Immediate Post-Take-over Period: Company D was the subject of a case study in section 5.5. A number of higher level East German managers in the old combine managed to raise money to buy a participating stake in the new merger with the British engineering consulting firm Acer Group. A bilingual marketing director was the only new management recruit from the British side, showing a high level of trust in the old guard.

"The previous Leiter or top managers were no way so dependent on a commercial attitude and the follow-on economic consequences. The managers weren't always technically the best people. Today a manager must be on top on the technical side, not any old body can do."

Quote Herr E. Co. D, interview number 14

Company D - Consolidation Phase: The firm experienced mixed results due to certain sectors enjoying relatively buoyant demand, driven by Government funded infrastructure investment programs. Other sectors fell on hard times especially those that depended on trade with the old COMECON countries. A marketing plan was implemented which mapped out the way forward, but further redundancies were inevitable.

-Company D, Implications for Learning. Company D (Acerplan) was our successful contrasting case company and has already been discussed in detail in that section. Very definitely there exists in this firm true two-way learning, fostered in a fully integrated, low acculturative stress environment.

Company E

- Immediate Post-Take-over Period: Company E differed from the other M&As as it was in reality an eastward expansion of an existing West German operation. As such the new employees were not the old employees but hired specifically for the job. Many of the initial jobs especially in sales went to West Germans as they were assumed to have more marketing know-how and some track record in selling. Those East Germans who were hired were chosen for their contacts, usually of a political nature.

Yes, and we tried to take these highly specialised people. You probably know the hierarchical system that existed in East Germany, well we tried to concentrate on people who were somewhere higher up the ladder, to utilise their connections.

Quote Dr. Kling. Co. E, interview number 1.

Company E - Consolidation Phase: The firm experienced poor results due to outbreaks of swine fever and the realisation that the pig farms in east Germany were so backwards as to be almost unusable for modern pig breeding techniques. Additionally

the western marketing people all left as they couldn't settle in the East and they had no success in selling due to assumptions of cultural similarity which were not reality. They fell into the psychic distance paradox trap. The East German new hires proved equally as disastrous as their contacts became worthless after national and local elections saw a major clear out of previous politicians and political appointees.

-Company E, Implications for Learning. Company E was the pilot study company and much smaller than all the others. An unexpected environmental jolt (the BSE crisis) meant that market conditions were very tough. Mistakes had been made, especially early on, by the western management. However it seems that lessons had been learned and the hire-fire mentality when dealing with East German employees had been modified. Still however most impulse came from the west, there was not even one office in the New Bundesländer. Two-way learning is not much in evidence, rather the transfer is all in an eastwards direction.

Company F

- Immediate Post-Take-over Period: Company F is the second case study. There was a quick influx of American managers to top positions and also as advisors. Unfortunately, none could speak German and they started to clash not only with the inherited work force but also, and more critically, with the representatives of the Treuhand who retained 25% of the stock of the company.

'The biggest problem we have is to communicate with the Americans, specially those from the South who speak a slang. ...The whole top management is full of Americans.'
Quote Prof. B., Co. F, interview number 30.

Company F - Consolidation Phase: Despite its problems the firm experienced relatively good demand for its products. However the acculturative stress showed in the development of a "them and us" mentality between the old East German employees and management and the new US managers. Major strategic direction disagreements also developed between the US managers and the Treuhand representatives.

-Company F, Implications for Learning. Company F (Tricat) was our contrasting case example of low two-way learning. It has already been discussed but it

is worth reiterating, that the company had a large, technically well qualified R&D presence before the M&A. The R&D staff were not co-opted, indeed seemed to be positively antagonistic to the new American management team. External factors such as the existence of an outside shareholder (the THA) with different goals from the Americans lead to agency problems.

Ex-employee of non-German M&As

Interviews were carried out with unemployed workers as well as those who had work at the six M&As. These ex-employee interviews have been split between people who worked, albeit only briefly, for West German M&As and those who worked for foreign (non-West German) M&As.

By the very fact that the employees had lost their jobs it could be expected that they would have less than a positive attitude to the foreign take-over firm. The views expressed were paradoxically the opposite. They were all surprised at the amount of latitude given to them by the new owners to act and take decisions alone. Additionally, the old management, and in many cases the old organisation structure, was left in place. The blame for their job losses was very realistically placed on market conditions. In many cases the purchaser had hoped to use the East German firm as a bridgehead to Eastern Europe and the GUS countries. The collapse of COMECON trade usually heralded the collapse of East German operations as the remaining export business could be more economically handled from other European locations or from the home base. It seems that although they misjudged the market possibilities, the non-West German purchasers were better at informing their employees about the market conditions. Additionally, several of the interviewees expressed their pleasure at being listened to and having the feeling that their experience counted in the new set up. The author was left with an unexpected feeling of goodwill, or more accurately understanding, towards the new owners, whereas one would expect the opposite.

'So they had a plant in the Netherlands and I often went there. As the Eastern European market collapsed, the old connections were not so important as they didn't bring in business. So the Dutch subsidiary started selling to what was left. It made sense, it was however our death knoll.'

Quote Frau G., interview 42.

Ex-employee of West German M&As

Seven of the interviewees had worked for a short period of time for a West German take-over. There was a definite feeling from a majority of those interviews that the type of acculturation experienced here was assimilation. In most cases the West German purchaser changed the management, by bringing in West Germans to key functions and reorganising the structure to a standard German (West German) layout (Bischoff et al, 1993). The views expressed by these interviewees towards the new purchaser were mixed. Many complained about the arrogant, telling not listening style of the new management. However it is only fair to say that at least two found their immediate supervisors relatively open to advice using their institutional knowledge. Interestingly one of these new supervisors was an East German escapee who volunteered to return after the fall of the Wall. Much mistrust was expressed about the perceived hidden agenda of the purchasers. In a high proportion of the cases, the East German operation was eventually closed and the whole of Germany was then serviced by the original West German operation. The underlying market factors that may have made this a rational decision did not seem to be communicated too well to the workforce. Consequently many of the ex-employees felt they had been used in a pawn in some colonisation game.

'..From one day to the next. We came back after the New Year break and our dismissals lay on the table. ...I've no idea of the reasons, you'd have to ask the publisher.' Quote Frau Schä, interview 32.

5.8 Discussion of the Results

The results will be discussed using an assessment of the validity of the three working assumptions. The usefulness of the original plus extended model in isolating factors which can be of use to practising managers will then be addressed.

Does the dominant culture always win? This question preceded the three working assumptions of sections 5.3 and 5.6.7. As part of the discussion of each of the three

assumptions, the five factors in the extended model having influence upon two way learning are explained.

5.8.1. Working Assumption 1: *Where the acquirer (in this case a Western firm) is financially and technically strong, any acculturation takes place on the acquirer's terms.*

This assumption cannot be supported by the results. All the East German acquired portions of ex-combines were financially and technically weak relative to the Western acquirer. However in some cases, the Eastern culture was accepted, lived on in a modified form and the resulting cultural mix formed a dynamic bedrock to build up competencies. Firms C & D are the best examples of such successful acculturation, resulting in integration and multiculturalism. The reasons why this occurred in firms C & D and not the other firms seems to depend on co-ownership (to be discussed below under working assumption 2) and good management of the post acquisition acculturation process.

Why is acculturative management so important? Its important because much of the most valuable knowledge and capabilities of East German firms are deeply embedded in their past organisational and societal culture. To successfully tap into these capabilities and leverage them across the new East-West organisations, it is vital to engage in a process of creating a shared understanding of what the purpose and abilities of the firm is. This cannot be achieved without identifying the tacit knowledge bases of the East and West partners and their relationship to the performance of the firms. And that cannot be done without the creation of a common language and organisational slack, both of which require successful acculturation. Firms who were culturally aware in their take-over strategies and addressed the issue of acculturation head on achieved low acculturative stress. The Swedish managers involved in the early days of Company C exhibited exceptional listening skills and patience and exemplified such cultural awareness.

What smoothes the acculturation and hence integration process? Three variables are important:

Common organisational language - It is necessary for people to be able to efficiently and effectively communicate with each other the knowledge which they wish to share. Shared experiences will offer some common grounds for understanding. A shared language, including culturally bound terms, is also required. Shared language enables people to express their knowledge in terms that others understand.

Low personnel turnover, high slack, coupled with high degrees of socialisation inside and outside of work was likely to foster common language. Some combines in the old East Germany employed whole towns, e.g. Leuna. There was a very high degree of social interaction between work mates when compared to the average Western firm. All this was likely to give the employees a relatively high degree of shared personal experiences, fostering transfer of tacit knowledge, coupled with a lower need to rely on relatively more inefficient explicit knowledge transfer mechanisms. Within the established group the potential to apply current knowledge bases is likely to have been relatively high, given the right motivational elements. However now with teams completely broken up and many new owners not recognising the need to develop a new common language for knowledge to be accessed and employed efficiently, then the opportunity to combine two unique capabilities may have passed. The East's knowledge management capability was in application, created through its high group orientated culture. The West's knowledge management strength was in its diversity of strategies and technology, created through its intellectual diversity, which avoided system wide core rigidities. Combining these knowledge management capabilities with access to new markets, technology, and capital could enable firms to develop a winning sustainable competitive advantage.

The existence of diverse social and technological perspectives in the new firm will not lead to the generation of positive learning in of itself. If new capabilities were to be generated then each side needed to be able to communicate to one another. The development of a shared language with which different perspectives can be communicated is a key element of both successful acculturation and organisational learning. Organisational learning theorists here in the UK, such as Frank Blacker (1995), as well as those from the American continent, such as Cohen and Levinthal (1990) and

Pentland and Reuter (1994), have recently argued that for knowledge to be created and transferred there needs to be a minimum level of shared language amongst the individuals involved in the knowledge creation and transfer process.

At its most obvious there was the physical language barrier of German and English. Company B only realised that their German colleagues did not speak English, and that the British managers they sent to East Germany did not speak German, upon the arrival of several managers from the UK *after* the completion of the acquisition.

Use of ex-patriot managers - One strategy used to overcome the problem of psychic distance was to employ West German experienced managers. The same strategy has been employed in other reforming economies by importing ex-patriots who had emigrated to the USA, GB etc. As these managers tend to be at the higher echelons and in the most critical areas (finance, marketing, strategy), their influence tends to be greater than their small numbers. The danger here is that these imported managers assume they know the culture, both national and organisational, but actually they do not. Similarly many West German buy outs in East Germany imposed Düsseldorf structures on Dresden. A policy of imposing West German structures on East Germany may have worked initially but the question is for how long?

Acculturative stress - The differences in national cultures produce acculturative stress, a phenomenon most people experience on foreign holiday. As already mentioned in 5.6.1, Acculturative stress occurs when expectations of some proper state of affairs as to '*what ought to be*' are not fulfilled. The R&D staff of firm F expected their technical knowledge to be highly valued. The new management perceived it as irrelevant causing high stress as the outcome

Firms C & D built up a common language, used ex-patriot managers sparingly, took care in choosing those used and concentrated on reducing acculturative stress by excellent communications. The other M&As did not follow these criteria and consequently ended up with higher acculturative stress. Company A for instance, although only having a few, but high level, American managers had not succeeded in developing a common organisational language, partly due to the lack of German

language capability of the CEO. Company F used many American managers, all without German language ability who made it obvious that the beliefs and attitudes of communist times were not appropriate now. There is nothing wrong with that view, if it is tempered by the acceptance of some aspects of what went on before, such as the group solidarity and inter-personal dependence and helpfulness. Unfortunately the acceptance did get communicated to the eastern employees.

5.8.2. Working Assumption 2: *There is more opportunity for the Eastern culture to influence the incoming Western culture when co-ownership exists.*

This assumption was supported by the data collected with the familiar proviso that they represented a small, unrepresentative sample of East German M&As. Co-ownership is linked to the chosen mode of entry of the market and usually decided before the take-over takes place. We discuss below several aspects of the pro or contra co-ownership debate.

Pace of restructuring -

a. Without co-ownership (acquisitions) - problems of governance (who is in charge, which strategy will be followed) are of limited importance because the acquired firm's shareholders no longer have any influence. This allows swift restructuring and the possibility of some return on the investment in the short term. The typical Anglo-American penchant for quick financial returns is probably best served by an acquisition. Company A in our sample was a good example, here the relatively protected market position enhanced the free hand of the new western management to allow quick restructuring and a speedy movement into profit notwithstanding large capital investments.

b. Co-ownership (mergers) - the negotiations and manoeuvring associated with at least two sets of stakeholders slows the introduction of restructuring. However this very tardy process is essential in producing a climate of mutual trust and acceptance necessary to make long term changes in work force attitudes and organisational culture. When the in-situ East German managers were included in the merger deal, i.e. they

became shareholders, then the ability to make long lasting changes was enhanced. Company D was a good example, here 25% of the shares were purchased by existing top East German managers and so instead of the acquiring culture dominating by virtue of ownership, the East German managers were involved and co-opted. There is always stress involved when two cultures interact, suffice it to say here that in a merger, especially one where there is staff equity involvement, the level of stress tends to be lower than when the acquirer imposes his culture on the acquired who have no co-ownership.

Negotiations process - Many M&As fail because the actualities of meshing the two organisations together prove impossible based on conditions imposed, and personal prejudices formed, during the negotiations process. By having East German co-ownership, the people most involved with post merger operations will have been involved in the pre-merger talks. The possibilities for misunderstanding and lack of trust are therefore reduced. The CEO of Company C was a good example of this factor.

Organisational slack - The more sedate progress experienced in restructuring within mergers as opposed to acquisitions allowed the retention of some organisational slack. Firm D in our sample had departments which were 'heavy' in personnel which was useful when others became busy due to structural changes in the market. It is widely recognised that slack permits a higher degree of interaction between people, thus facilitating the transfer of tacit knowledge across individuals (Nonaka and Takeuchi 1995). Much of what we know cannot be easily communicated. This is tacit knowledge. It is a vital component of our day to day lives. If a capability relies upon tacit knowledge, it is more likely to be a source of sustainable competitive advantage. This is because the elements that drive the capability forward will be difficult to identify by competitors, and hence copy. If carefully managed, organisational slack can foster the transfer of tacit knowledge between individuals and, in a merger, across organisations.

It is important to initially identify what knowledge is tacitly stored inside the purchased unit. Once this knowledge is identified then it would be important for the M&A to develop strategies to nurture this knowledge and transfer it across the old organisational boundaries, embedding it in the routines, hierarchy, and culture of the new firm. Instead

the firms investigated viewed slack, or overlaps in employees duties and knowledge, as completely surplus to requirements and hence engaged in hasty mass redundancies. This phenomena is not confined to the East, there is anecdotal evidence in the stories of the privatisation of the UK water industry that suggests this many also occur in a long-term member of the western economy, (Baden-Fuller & Hunt, 1996).

Freedom to experiment - New owners of East German firms have the freedom to introduce experiments, as usually the East German operation is small in relation to the overall group size, see Table 5-1 for the relative size of the M&As in the sample. The real return emanates from developing techniques to surface hidden capabilities in East Germany and then if they prove successful to export them to other countries or regions. If the capabilities prove to be not much of a gain, then the mistake can be isolated at the periphery of the company. Due to the lower fixation on instant financial returns, mergers have more leeway to experiment.

In summary the time frame of the stakeholders matters. Quick returns and fixation with income seems to be better served by an acquisition i.e. without co-ownership. The counter arguments in favour of mergers and co-ownership, is introduced and supported by this research.

5.8.3. Working Assumption 3: *When there exists an equal relationship with low acculturative stress between Western acquirer and Eastern acquired, two-way learning and information exchange is the outcome.*

The third assumption remains exactly that, an assumption. We have collected sentiments and opinions of managers and employees, both German and non-German supporting the assumption. It has also support from the literature. We argue that a key outcome of attention to organisational fit and acculturation is that value is created and distributed across the new organisation in the form of learning. Synergistic learning occurs through the blending of two very different organisations into a cohesive unit. However, the argument is ripe for further research to prove a positive correlation between acculturative stress and two-way learning. The data gathered in this research seem to point in the direction that a link exists and the assumption number 3 is correct

but the results are of a very exploratory nature. However we can say something about the idea that the real return of an East German M&A is learning.

Learning - a Motive for a M&A. There can be many motives for acquisitions and mergers. Past researchers have surfaced motivations such as growth, entry into concentrated markets where organic growth is slow and laborious, managerial motives such as increased visibility or an enlarged power base, bandwagon effects where mergers and acquisitions come in waves, and increases in shareholder wealth. As expected the original motivations for entry into the East by our sample companies were varied. The argument in terms of growth is clearly seen in Company F, a small company who merged with an East German speciality chemicals company. This acquisition doubled the size of the Western partner in terms of employee numbers. The motive of access to a concentrated market can be seen in the case of Company A, in power generation, which is a regulated market. In the case of Company C managerial motives are clearly in evidence. Seeing the writing on the wall one of the senior managers inside the old East German combine set about pro-actively searching for a western acquirer without any prompting from the Treuhand. The question of bandwagon effects is rarely so pronounced as in the case of the early years following German reunification. The East Germany privatisation authority, the Treuhand, was operating on a tight timetable. In essence their remit was to develop a private economy quickly, where there was none before. To do so it marketed its 'product' (split up, reorganised sections of East German combines) primarily in the form of acquisitions or mergers with West German and overseas organisations. Only later did it expand its interest to other variations.

We believe that in retrospect once our sample companies acquired, or merged, with an East German firm one of the principle advantages of the expansion may have become to capitalise on access to scarce resources and capabilities. Such resources included technical knowledge and to a lesser extent knowledge about the workings of the former Eastern block economies. This advantage essentially views the firm from resource based perspective, which is strongly linked to our learning argument, which in turn is linked to organisational fit and acculturation. To tap into complimentary resource bases and harness their power in the form of products and services which add *shareholder value*, it is essential that the firm not only knit the two firms resources and capabilities together

via the process of organisational fit but create new ones which more efficiently and effectively deliver value to the customer. This whole process could not be achieved without careful attention to the points outlined above.

Learning - Generation of New Capabilities

Diversity - Why is learning such an important outcome? The principle reason is that organisational learning generates new knowledge and capabilities which are the keys to the long term survival of a firm. Organisational capabilities are a greater source of potential profit than resources because they are the glue that binds the organisation together and that glue is much harder for competitors to ascertain and copy than resources. To harness a firm's resources organisational capabilities are needed which combine resources in novel and unusual ways. More formally capabilities can be defined as:

'information based, tangible or intangible processes that are firm specific and are developed over time through complex interactions among firm's resources .. unlike resources, capabilities are based on developing, carrying and exchanging information through the firm's human capital.' (Amit and Schoemaker 1993).

The development of new capabilities is a vital task of the firm. Researchers have long observed that the capabilities of today may be the straight jacket of tomorrow (for a compelling insight into this line of thought the reader is referred to Dorothy Leonard-Barton's (1992) article and subsequent book). If firms rely exclusively on their current way of thinking then over time they will become removed from the changing needs of the marketplace and die. One of the key mechanisms to avoid such a fate is to maintain a level of intellectual diversity inside the company which challenges current orthodoxy, exposing the firm to new ways of doing things. In this way the firm can experiment with alternative methods of organisation to improve efficiency, and new ideas on what the appropriate technologies and markets the firm should develop and address, thus improving the effectiveness of the organisation. Acculturation, triggered by post-merger integration, is an excellent source of intellectual diversity and as such an ideal hunting ground for the emergence of new organisational capabilities.

Evidence from our interviews suggest that the mergers and acquisitions triggered an injection of fresh perspectives on how the organisation should operate, in addition to valuable new technical insights. This clash of perspectives is strikingly illustrated by the comments of one American manager who commented that there were clear differences in perspectives and knowledge creation methods between the Western and Eastern wing of the two firms.

“In former times the firm was managed more or less from the bottom up. In other words as technologists they {the East German employees} would say well we want to do work in this field, so they would do work in that field hoping that a product would come out of it. In the western world, one starts from the market and you are looking to serve the market.”

Learning - Communication. The process of integration sought to combine excellence in technological perspective with a market perspective. To do so new organisational capabilities needed to be created. The existence of diverse social and technological perspectives in the new firm will not lead to the generation of positive learning in and of itself. If new capabilities were to be generated then each side needed to be able to communicate to one another. The development of a shared language with which different perspectives can be communicated is a key element of both successful acculturation and organisational learning.

Shared language, as stated before, is required so that people can express their ideas in terms that others understand. This was a major challenge in the case of our sample firms. At its most obvious there was the physical language barrier of German and English, e.g. Company B.

Learning - fear of job loss. If the acculturation process is not carefully managed then communication breaks down and learning is impeded. This may in part be a response to a failure by the two parties to understand each other's differing perspectives. If understanding emerges then some of the key ingredients of learning, such as trust, shared world view, and ability to communicate across disciplinary boundaries to develop inter-disciplinary products and services can develop. If not functional

specialists may retreat into information hoarding. A clear example of this occurred in our sample Company F. One of the German managers noted that a culture of fear emerged where German employees worried about the security of their jobs and responded with knowledge hoarding. As she put it:

“... one keeps one’s knowledge to oneself in order to somehow or other become indispensable. Once again that’s this fear of losing your job that is always in the background. Professor B. went through the age structure of the firm. We are all at such an age that if we were to have to leave the firm we would be almost impossible to place in a new position. And we’ve all got a long way to go to retirement.”

Yet these people had deep reservoirs of technical knowledge which the new partner’s wished to access, but were hindered in doing so by the German employees’ fears. The German employees felt that they were going to be sold out, however interviews with the Western managers indicated that this was not the case and they believed that the German employees had a lot to offer and despite their age profile were most willing to learn. Acculturative stress based on expectations was in this case acute and so the opportunity to develop synergistic learning never occurred.

Overall the key lessons we believe that have emerged from our data from a learning point of view is that if management pay close attention to acculturation a natural breeding ground for learning will occur through the mingling of diverse perspectives. To capitalise on this breeding ground the M&A needs to reduce the level of actual communication problems by not destroying the existing shared language and consciously attempting to understand it. The retention or development of a basic common language with which the new management and existing employees can communicate and work together is important as it allows the development of a shared understanding of the purpose of the business across functional disciplines.

5.8.4 Usefulness of the Model

Do the original and the extended model have productive potential which can be used by managers in East German M&As? Knowing the independent variables which make up

acculturative stress (Table 5-4) allows managers to put together programs which can ease the post acquisition process. Some of the variables in the extended model (Figure 5-8) can also be influenced by managers, e.g. the five factors signifying two-way learning. Other variables are arguably not so easy to influence. Can a firm influence its business environment? By selecting its markets and developing new products for new markets, the answer is yes. In the short term however, the firm is probably stuck with the conditions prevailing in its marketplaces.

The predictability of the model needs further work. Certainly the original model (Figure 5-7) can measure acculturative stress. However as managers are interested in hard results, the accuracy of the extended model (Figure 5-8) is of more practical interest. Here the lack of objective measurements for two-way learning plus the, at least, short term vagaries of the market mean the predictive powers can only be tested over the long term.

5.9 Conclusions

Expansion through international M&As creates challenges at both the pre- and post-purchase stages as well as during the negotiation process itself. All three stages are important and although this research concentrates on the post-purchase phase, the knock-on effects of the previous stages cannot be ignored.

The assumption that acculturation takes place on the terms of the stronger party, i.e. that the dominant culture always wins, can be negated. To avoid western dominance entails a practical strategy for smoothing integration. It is achieved by managing the acculturation process through sensitive acceptance of useful elements of the old eastern firm's culture, the judicious use of ex-patriot managers and import managers with language and cultural awareness capabilities. The process of integration seems also eased by allowing co-ownership and top positions to some of the original East German management. Such decisions are usually taken at the pre-negotiation or during the negotiations phase.

Where the Western partner acted as such and not as a conqueror, the management of acculturation and co-ownership was achieved effectively. In such situations there are implications for the future through the engine of two-way learning. Through two-way learning, the human resource capabilities of the M&A are enhanced which is a great investment in the future. What this future may promise and how trends mentioned here can be further investigated is the subject matter of Chapter 6.

Chapter 6 - Contribution, Speculation and Future Research

6.1 Contribution

The main advantages of attempting this empirical, qualitative research project in East Germany during the mid-1990s included: the timing, the qualitative desire to surface new theory (given the potential inapplicability of existing theory), and finally the neutrality of a non-German but long-term resident researcher. It may be useful to explore these advantages a little further.

There was a plethora of academic interest in East Germany in the immediate aftermath of the fall of the Berlin Wall, (Assmann et al, 1991, Wuppertaler Kreis, 1992). The results were mainly prescriptive advice on how to transform the moribund combines and a lesson in how the language of East and West German academics had diverged. In other words not much substance. Also many of the combines were in a holding mode, under THA control but not being reorganised and waiting for some white, mainly West German, knight. The field research in this dissertation took place 5-7 years after the collapse of communism and more importantly 4-6 years after the merger or acquisition of existing combine parts with western interests. This not inconsiderable length of time has allowed the ramifications of currency union, competition and new management vision and practice to have had some effect. There should be something new to review and analyse. There is in reality plenty new to report and therefore it was not too difficult to report some contribution, i.e. the timing was opportune.

Although multinational corporations have been expanding overseas for decades in the western world, they have been moving into areas where the economic system shared at least similar principles of competition and the rule of the market as in the home market. Theory developed in the international trade area was therefore based on continuing scenarios as just described. The collapse of the command economies suddenly introduced a new element into the equations and there was immediately recognition that new theory was urgently necessary. Coupled to this need for new theory was the growing realisation that the theory being applied was western based and may not be relevant to a situation in which a move from command to market economy was

underway, (Spender, 1992). The researcher set out to try and raise new theory and therefore chose to use a qualitative research methodology. Additionally a model from established Western theory, (Nahavandi & Malekzadeh, 1988, Figure 5-6), was embellished and expanded to form the search mechanism within M&As for acculturative stress and even to potentially predict future success. Any new theory, see following speculation section, can be counted as a contribution with the proviso that substantial testing out is still required.

The problems of research abroad have been discussed in Chapter 4. The initial academic interest in East Germany came naturally from West Germany, but it brought with it a problem. The psychic distance paradox as discussed in Chapter 5, applies just as well to academic research as to acculturation in M&As. Do British researchers have deep, ingrained insight into US industry, or vice versus? Oh course not. Must they beware of assuming things are the same given the common language? Oh course. That is the problem of psychic distance in intra-German academic research. The researcher here brings also bias to the research. The research is inevitably influenced by Anglo-Saxon ways of thinking about business. So it therefore should contrast nicely with the more Germanic slant inevitable from German researchers. Another potential area of contribution.

Due to language difficulties, much foreign research inevitably took the form of joint research projects between German and universities abroad. There are certain disadvantages attached to joint research projects, like differing goals and lack of clarity on underlying terminology. An example of terminology is that there was for instance no understanding of the word "management" in East Germany in 1989. Although West Germans have used the term in its English form for decades, East Germans used the German term "*Leitung*" which has a different meaning (that of directing information down to the lowest level). An advantage of one individual, researching alone is that problems of differing terminology as well as cross-cultural team work are reduced.

One contribution that the researcher firmly expected from the research at the beginning was that any findings could be used as advice for similar expansions by foreign firms further eastwards into Eastern as opposed to Central Europe. This aim was even

included into the transfer document after year one of the study. However there are three large problems associated with taking advice gained from research in East Germany and applying it to privatisations or M&As further eastwards.

Firstly, the research here makes no claim to be generalisable to East German industry at large never mind CEE industry.

Secondly, can East Germany be used as a basis for comparison? There are many authorities who regard East Germany as a one-off-case, Gros & Steinherr, (1995). It is a special case due to the speed of change, as well as the big brother transfers of money, legal and administrative structures. No other Eastern European country has had to change so quickly and likewise no other ex-communist country has had so much assistance. The other side of the argument is that by studying East Germany one can gain an insight into what may happen in other reform economies in advance of it happening. Rather as California is supposed to be a leading indicator for trends in the USA and the world in general. If this latter view proves correct then indeed findings in this research may be claimed to represent a contribution.

Thirdly, and related to the usefulness of East Germany as an indicator for other reform countries, is the worry that the end product (assumed to be a market economy bedded in a democratic political system) may not be the end product in East Germany never mind elsewhere. The ideas involved in transition as opposed to transformation are discussed below in the speculative section of this chapter.

What then was found that was novel or could be termed a contribution from the field findings?

Before listing the contributions claimed for this research, mention should be made of their relevance to the problem statement and research questions and their origin in the resource based view of the firm (RBV). The research followed an almost SWOT analysis approach - a strategy term, thought to stem from the Boston Consulting Group, meaning looking at strengths, weaknesses, opportunities and threats. Working on the assumptions of the RBV and using SWOT, the human resources available in East

German M&As were investigated. Each of the six contributions will have their connection to the research problem and questions spelt out, sometimes the contributions relate to more than one. The problem statement from 2.3.2 and the research questions from 2.4 are repeated here to ease reference:

2.3.2 Statement of the Problem: -

(1) *What were the key hindrances to integration and learning?*

2.4 The Research Questions: -

(2) *What strategic actions eased the take-over process?*

(3) *What were the implications for two-way learning of any actions taken?*

For instance in the first contribution, problem statement (1) is addressed by isolating and measuring acculturative stress, but additionally an answer to question (2) is formed.

1. Concentration on reducing acculturative stress helps in the long term and doesn't necessarily hinder in the short term

Results from the case data being run through the model showed firms with high acculturative stress were not achieving integration, e.g. Firm F. Firms with low acculturative stress were observed as being actively involved in preparing their competencies for the future. They had survived just as well, if not better, than their competitors the rigours of the post reunion marketplace. However they were exhibiting greater employee involvement and integration, which was showing itself in an accelerating acceptance of commercial thinking necessary for survival and expansion in a market economy. Acerplan is a prime example. Workers were constantly in and out of each others office and also that of the imported managers. They were giving opinions, listening to advice and exhibiting the five factors in the extended model (Figure 5-8) showing the whole process of two-way learning was definitely in full swing. Even in a very competitive and increasingly depressed market, the firm was expanding.

One of the causes of high acculturative stress was poor cultural management of the post-acquisition process. Here factor number 3 in the model (Figure 5-7) is crucial.

2. Choice of imported management is crucial

The contrast between the American managers in Tricat (the unsuccessful M&A) and the Swedes in Company C or the British bilingual Marketing Director in Acerplan is stark. The lack of any attempt to learn the host language by certain foreign managers sends very strong negative signals to the employees in East Germany. Villinger, (1996) notes that the knowledge of the partner's language and a sensitivity towards cultural issues seems to be crucial, though undervalued factors for successful learning processes on both sides. A link was observed between what Hofstede misleading terms feminine aspects of managerial behaviour and the success of the foreign import managers in achieving low acculturative stress. Maybe people like Jack Welsh and Lee Iacocco would make lousy managers in Eastern European M&As. One substantial reason why this could be so is that they would stifle any two-way learning with their telling, aggressive styles.

A run-on effect of culturally insensitive management was the blanket application of Western "models" of motivation. Using the model (Figure 5-7) force number 4, varying expectations, we can see that the assumed desire of Eastern employees to react to individual assessments is maybe erroneous and the desired behaviour, personal initiative and responsibility, is not automatically present waiting to be tapped. Here agreement was seen between interview findings and the findings of other researchers, e.g. Frese et al, 1996 - low initiative or Pearce et al, 1994 - responsibility and individualism. The third contribution claim is therefore:

3. Individual incentive plans have limited applicability

In most of the six firms investigated, managers were most proud to emphasise how they were implementing certain forms of person based incentive schemes. There seems no critical assessment of whether this imported idea is necessary or not. There are certain jobs where such schemes can be positively counterproductive. Shift workers in Firm B complained about the increasing backlog of routine maintenance on the 24 hours in usage machines. Previously each shift had spent some of the eight hours ensuring

correct settings, greasing and other routine maintenance was performed. With the move to piece rate payments, the machines were often handed over in such a state that the following team had to stop production for several hours. When machines were occupied by only one worker, this problem was even worse. However in areas such as sales, the move to individual incentives had produced mainly increased efficiency.

A strategic action enabling smooth integration which actually needs addressing in the pre-acquisition stage is the governance issue of co-ownership. This factor formed force number 1 in the model (Figure 5-7).

4. Eastern ownership involvement, especially for East German managers, reduced agency problems and in all cases had a positive effect.

The top East German managers in the successful M&A case firm (Acerplan) were offered at the start of the merger process the possibility of obtaining 25% of the stock. Although difficult for them to raise the money in the underdeveloped banking sector of the just deceased DDR, they were able to obtain a loan. The motivational effects of having a very direct interest in the future policy of the firm were regarded by all as very high. Likewise in Firm C, the former boss of the original section in the combine, sought out the foreign, Swedish, partner and was offered the top job and a stake in the enterprise. The difference between an outright acquisition e.g. firms A & B and a merger with East German management involvement is great and was obvious from the interviews with not just the Eastern managers in possession of stock.

Contributions 1 through 4 have been related to questions 1 and 2. The fifth contribution addresses (2) but also has great importance for the implications for learning (question 3). Here the expanded model (Figure 5-8) is of use. All the forces 6-10 affecting two-way learning are exaggerated in a group setting. The research found a continued existence, albeit in a weakened form, of the work group. The tenacity of this institution suggests that it is highly ingrained into East German worker's psyche and continues to provide some usefulness in the times of revolutionary change. It is in this area that the fifth claim for contribution is made.

5. There is latent potential in the group to facilitate learning and change

The rush to apply western accepted wisdom by introducing individually based incentive plans and reducing slack by redundancies was never questioned. It is here. Naturally when on average 80% of the work force has been cut in East German industry and the firms, or some of them, still survive, then massive featherbedding must have taken place previously. However often the baby gets thrown out with the bath water. Redundancies were often based on the last in, first out principle. Some of those younger workers who were released could have formed the backbone for future stability and expansion. Whole teams were disbanded or dissected because what they were working on no longer made economic sense - Company F's R&D. These teams had a wonderful, functioning system of trust and networks which disappeared along with the team. Imagine the motivational impetus that entrusting at least some of these teams, as a group with new projects which fitted the company's new goals. The motivation would come from having an established group as the change agent, supporting the new management. Integration of new practices and strategies would be assured, naturally at a price. The price is that the labour costs would remain high longer than under a system of rigorous employee pruning. In the section on organisational learning in Chapter 5, the importance of the group in internalising routines as stores of knowledge was mentioned. That is the link which would go missing if the group were to be abandoned in favour of individual based work.

The final contribution is linked directly to question (3).

6. Unlearning as a solution to core rigidities

The idea that unlearning is a critical element in modernising an organisation is viewed in the West as an interesting, yet slightly irrelevant academic point. In Eastern Europe however it is more than relevant because the unlearning is taking place on at least two levels. People are coming to terms with the reality that state planning has failed and is being replaced by the market. They are having to unlearn all their ideas that through solidarity of the proletariat and a paternalistic state their every need could be met. Even

if the needs were not met, and they were not, then there was always the balm that the forgone consumption was helping towards a better future for everyone. In addition to the society level unlearning, the cosy world of the socialistic, monopolistic, vertically integrated firms is falling apart. Adherence to rules from above is no longer regarded as laudable. Customer needs, a formerly irrelevant sideline, are now important. The East German worker is therefore being forced to unlearn many aspects of working life which were taken for granted up till now.

Unfortunately, the measurement of unlearning presents formidable obstacles not really addressed or solved in this research. Hence unlearning was not incorporated into the model. It is almost certain that unlearning has taken place, which means a great potential for learning new capabilities and routines is on tap.

Are the above contributions enough to allow the preparation of a successful strategy for eastward expansion via M&As for Western firms? The answer is probably not. The effects of the external environment can sometimes override the internal leveraging of resources within the firm. Several firms survived, almost in spite of themselves, because the market environment was supportive, e.g. Firm A with its nice energy sector regional monopoly. However, will they survive in 5, 10 or more years when the environment could well have changed? The answer must be only if they also address internal resource potentials, in other words invest in their employees giving them the means to participate and feel their contribution is necessary. Cases of nice regional monopolies disappearing are not unknown, see for instance the water industry in England (Baden-Fuller & Hunt, 1996). On the other hand the best intentions of leveraging internal resources can be offset by adverse environmental trends. Firm B was stuck in the middle of a pitiless competitive fight and was just surviving financially. Managers here acknowledged the need for enlightened HR policies but noted that the money and time were unavailable and the employees would not learn as they did not know if their job would exist for a few days longer. The way forward seems to be a middle course of emphasis on both internal and external issues, with practicality guiding which gets most attention.

6.2 Speculation

The benefits of two-way learning have been branded here as the spring board to future competencies and success. The reasons were explained in Chapter 5 with reference to the academic literature. The reality is that in East Germany at least, not enough time has elapsed to check out the claims for long term success. There is a definite need for future longitudinal study, see the next sub-section on future research.

Mention has been made that there is a distinct feeling that western management theories are either not applicable (because of different infrastructure, lack of legal and financial laws at least in other CEE countries etc.) or they need substantial modification. Certain elements of the six contributions mentioned above may form part of any new theory appertaining to organisations involved in changing from a command to a market economy. Two are raised here as being potentially most different from existing accepted knowledge and therefore of greatest interest. They are: the importance of the group and the need for unlearning.

The importance of the group is of interest as it flies counter to the trend in the work place and also most theories of motivation. In his study of the East German motor industry since reunification, Marshall, 1997: 11 notes that 'Managers at VW Mosel and Opel Eisenach found that experience accumulated by former employees of state socialist enterprises were surprisingly congruent with the aims of establishing team-based production, in fact more so even than their western German counterparts'. Indeed the worker's prior experience was found to particularly well equip them for team work in a modern lean production system, *ibid.*: 20.

West German managers commented that it was difficult to get West German workers to function in teams because there is a much more individualised worker culture. East German workers can be easily formed into teams. Far from being outdated, experience of interacting in a group was found to be an excellent starting platform for working in some of the most modern production environments in the world. It is therefore speculated that East German industries using modern team methods will be more

successful than their western individually based counterparts in those areas e.g. production where interaction and co-reliance is necessary.

Although not in opposition to accepted theories in learning, the idea that unlearning has a critical role to play in acceptance of change has seldom been explored. Some ideas remain unused rather like the fact that electricity can be conducted without resistance at temperatures approaching absolute zero. Using this example from modern physics, a change in circumstances, in this case the development of new mixtures of materials, meant that the previously abstract phenomena became suddenly useful. Likewise the sudden, political changes in Eastern Europe post 1989 have created a windfall change situation where vast swathes of the population are actively unlearning. The speculation is that employees in East Europe will embrace new methods, ideas and situations more easily than their western counterparts, who have not the same pressing need to question their fundamental beliefs.

This last point brings up the hoary question, noted in the contribution section, of whether we are facing a transition or a transformation in East Germany. The difference being that a transition involves a smooth, unbroken move from one complete system to another, i.e. from socialism to capitalism. A transformation on the other hand involves the changing of social structures bit by bit, with some changing completely and others hanging onto their old identity. The main difference is that the start position was not true socialism (it was a messy mixture of private and public) also the end state is not true capitalism (we have observed areas where East Germans have clung to their past, e.g. groups). The view of transformation is championed by Grabher & Stark, (1997). We have seen in the firms visited in the field research here that the new has not automatically triumphed. It is speculated that the future will see substantial chunks of Eastern European social structure perpetuated in the new work places of even foreign M&As. In other words transformation not transition.

6.3 Future Research

The areas for future research are varied but can be split according to:

Original Model - Refinement of the measurements of the five factors influencing acculturative stress. Development of a less subjective measure of the outlook for the acquired/acquiring firms.

Extended Model - Attempt to measure strengths and weaknesses of the five forces in the extended model (Figure 5-8) which are presented as making up two-way learning. Apply the extended model to other M&As, see "Time" below.

Time - Longitudinal follow on studies to check out the predictions of success made here on the basis of assumed two-way learning. Revisiting the researched M&As and updating the data base.

Design - Quantitative studies which can be generalised to industry sectors or all the East German economy. The majority of the firms visited in the field research were of medium size and in the engineering services sector. Questionnaires could be designed to test out the level of acculturative stress experienced after privatisation in other firms in the same sector or outside. Once again these results could be linked to a longitudinal study on whether low acculturative stress brought long term success.

Place - Predictions of the positive effects of unlearning could be checked by running research in East Germany (in those firms where it is present) and abroad where the need to unlearn is not being forced by political changes.

Theory - New theory about foreign expansion into reforming ex-communist societies can be tested out using both the original and the extended models in other settings. It is worth noting here that no firm visited had followed the "usual" steps in selecting East Germany as an area of expansion. Reasons for the choice were not covered by any theory known to this researcher and seemed to be mainly opportunistic or accidental.

Cross-cultural comparisons - Mixed team research comparing East Germany with West Germany, CEE countries and other countries. Bearing in mind East Germany's "big bang" legacy, there should be fruitful mileage in comparing countries with relative

stability as the basis for change with the quick break with the past basis of the New Bundesländer.

Intra German comparisons - To check out where and what remains from the socialist era. An example could be the observed reluctance of East Germans to give up their group based heritage. It would be interesting to track this phenomenon using a matched West German subsidiary as a control. The resistance of cultural heritage to modification could then be charted over time.

6.4 Conclusion

In conclusion we will return to the strategic management viewpoint encompassing this research. East German M&As had certain problems, namely barriers to change and integration, associated with the human capital inherited from the previous regime. The research raised some positive reasons why these deficits in attitudes, techniques, responsibility, initiative etc. can be overcome. The East German employee brings something to the party - education, discipline, skill, inter-personal social maturity - attributes which when coupled to the receptiveness to new ideas due to unlearning, makes for a potent mixture. It is up to M&A managers in East Germany to use this potential wisely and with some humility.

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Table 3-8
Empirical Studies about East German Management
before and after Reunification

Source and Publication date	Data Collection	Research Areas
Pre-Reunification	8 studies	
Vorweg (1966)	1965	Relationships and potential of the Top functionaries in Kombines
Bergleiter (1967)	circa 1965/66	Job content details of Division Chiefs
Peisker (1985)	1982/83	Management Behaviour and time management
Wolf et al (1986)	1972-83	Management values and satisfaction
Bohring/Ladensack (1986)	circa 1983-85	Organisational and managerial learning in the introduction of new procedures
Makhoul (1988)	1986/87	Organisational functions, time management of Divisional Chiefs when creating a new organisational structure
Stollberg (1988)	1987/88	Cooperation and relationships within the leadership collective
Markowski (1989)	1987/88	Values and attitudes including demotivating factors
Post-Unification	26 Studies	
Friedrich (1990)	1990	Management leadership and organisational qualifications
Huck (1990)	circa 1990	Personality traits of Western and Eastern managers
Wunderer (1990)	1990	Management style
Stobbe (1991)	1990	Personality traits of candidates for management positions
Alt/Bishoff/Lang SOKULT90 (1991)	1990	Management content, style, values and satisfaction
Kienbaum (1991)	1991	Attitudes and behaviour of top managers
Gaulhofer/Sydow '91	1990/91	Management values in East/West cooperations
Günther (1990)	1990	Training, political background, motivation of top managers
Wuppertaler Kreis (1992)	1991	Differences in management actions between West and East
Icks (1992)	1990/91	Examination of specialists from East Germany in training in West German <i>Mittelstand</i> organisations
Stieler (1992)	1990-92	Values of managers
Tack (1992)	after the <i>Wende</i>	Knowledge, ability, need for training, self confidence of middle management
Stratemann (1992)	1991	Personal motivation
Myritz (1993)	1992	Qualifications and competence of top management
Machazinal/Wolf/Döbler (1993)	1991	Values of managers, workers and unemployed
Alt/Althaus et al (1993)	1992/93	Examination of non-management personnel strategies to overcome change from plan to market economy firms
Altschuh/Schultz/Gambard (1993)	1989/90	Management behaviour and thought processes
Luther/Wöllner (1993)	1991/2	Leadership in firms
Maeck (1993)	1992/3	Management behaviour, style and organisational knowledge
Walter/Steger et al (1994)	1993	Group leaders behavior, values and satisfaction
Glötz/Ladensack (1993)	1993	Structure of management in East German companies: background and leadership successes
Thomas (1994)	after the <i>Wende</i>	East German cultural standards in East-West cooperation
Lüdemann/Sourisseaux/Wagner (1994)	circa 1991/2	Shift leaders' cultural values, training needs
Scmittberger (1994)	1993	Biography and values
Aderhold et al (1994)	1992-93	Management style
Projekt Interkult (Hermann/Wirant (1994)	1994	Managerial Values and styles

* Lang (1994)