

BEYOND THE DEAL: AI, CULTURE AND M&A INTEGRATION

by

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DISSERTATION

Presented to the Swiss School of Business and Management Geneva
In Partial Fulfillment
Of the Requirements
For the Degree

DOCTOR OF BUSINESS ADMINISTRATION

SWISS SCHOOL OF BUSINESS AND MANAGEMENT GENEVA

April, 2026

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Dedication

This dissertation is dedicated to my parents, my sister Aarti, my wife Prerna, friends and my mentors who have been my pillars of strength throughout this academic journey.

To my parents, words will never be enough to express my gratitude. Your belief, encouragement and sacrifices across the years have shaped my personality. Thank you for instilling the values of hardwork, perseverance and resilience in me.

To my sister Aarti, thank you for always being my confidante and cheerleader. Your constant encouragement and understanding has meant the world to me. You have always reminded me to keep going, even when the road ahead seemed difficult.

To my wife and partner Prerna, we have only just begun our journey together, yet your presence has already transformed my life. Seeing you earn the title of Dr. filled me with pride and motivated me to push harder towards my own goals.

To my mentors and my supervisor, I am grateful for your support, patience and wisdom. I would like to thank Dr. Michael Bischoff for his mentorship during my time at BASF and Dr. Dmytro Kylymnyuk for his constant feedback during the three-year period. Your insights and constructive feedback have shaped not only this piece of work but also my academic and professional growth. You have inspired me to think critically and strive for excellence.

To my friends Farnaaz, and Maarish, thank you for being my sounding board, and for reminding me to take breaks and celebrate small victories along the way. Lastly, I dedicate this work to all those who dare to dream and persist despite any obstacles in life. This dissertation may serve as a reminder that every challenge is an opportunity for growth, and every setback is a stepping stone towards success.

ABSTRACT

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2026

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This paper examines the acquisition outcomes throughout both pre-deal and post-merger integration (PMI) stages. This study presents a new measure of organizational cultural distance based on employee reviews on Glassdoor.com, calculated using a large language model. The analysis covers 312 M&A deals between 2008 and 2025, allowing for an examination of cultural effects over a longer period, including the AI boom in the year of 2024 and 2025.

The culture differences between acquirer and target organization might led to integration clashes, negatively impacting both short-term capital market reactions and long-term synergies. Second, this paper finds a positive relationship between cultural distance and acquisition premiums, which supports previous research that cultural misalignment increases valuation uncertainty, forcing acquirers to overestimate synergy possibilities. Hence this leads the acquirer to overpay for the target.

The researcher also uncovers the cultural factors that drive impacts. Market orientation primarily influences the performance of the deal, but hierarchical versus adhocratic orientations impact the outcome of innovation, depending on whether innovation is measured through metrics such as

patents and / or new product development (NPD). This paper adds to the space of M&A research by highlighting the impact of organizational culture on financial and innovation during the M&A process. The findings extend from just academic to professional practitioners using the insights obtained from cross border and domestic M&A deals.

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CHAPTER I

INTRODUCTION

1.1 Introduction

Mergers and acquisitions (M&A) enable businesses to grow quickly and gain market space by cutting costs or by joining forces (Haleblian et al., 2009). Furthermore, M&A can be seen as a method to acquire intangible assets and / or innovative technology, which leads to long term competitive advantage (Bauer and Matzler, 2014). Although M&A is assessed from a financial perspective, the success of an M&A deal depends on factors that go beyond traditional financial and valuation models. These factors include organizational alignment, innovation capability and quality of the integration, rather than just focusing on shareholder value and synergy headlines (Cho and Chung, 2022 and Ellis et al., 2011).

On a global scale, M&A activity rebounded in 2024 and continued to grow into 2025, with total activity surpassing \$3 trillion (Bain and Company, 2025 and Wiedemann et al., 2024). There has also been an increase in large, capability-driven M&A deals. Nonetheless, a considerable number of M&A transactions still fail to achieve their intended goals.

Historical evidence such as Rao-Nicholson et al. 2016, Cartwright and Cooper, 2014, Ferreira et al., 2012 and Cartwright and Cooper, 1993 suggested that approximately half of all deals fall short, highlighting the significance of non-financial drivers such as cultural mismatch (Wiedemann et al. 2024), human capital flight (Celestin, 2025), environmental, social and governance (ESG) factors (Gao et al. 2025), and operational and integration blindness (Bauer and Friesl, 2025) in particular in the post M&A deal performance.

For this research, culture has been seen as a key factor. Prior analysis (Shah, 2019 and Graebner et al., 2017, and Marks and Mirvis, 1998) indicate that cultural differences between the acquirer and target can destroy value and make the integration process more challenging, even though there might be specific learning benefits between the organizations (Stahl and Voigt, 2008). Recent Big4 survey from PwC (2025) reveals that executives are considering cultural comparability in their decision-making process on whether to pursue a target or not.

Additionally, the survey reveals that the acquirer explores ways to retain key talent, understand the differences in the decision-making styles, and create a high-level target operating model to understand how the merged firm will operate prior to the deal signing. High profile deals often attribute underperformance to cultural conflicts, emphasizing that cultural fit is important from the initiation of the deal through the execution phase (Bauer and Matzler, 2016).

Organizational culture includes decision-making styles, informal control mechanisms and rituals that influence daily operations, whereas national culture reflects broader social norms (Rottig, 2017, and Kirkman et al., 2006). There is a need to differentiate between the two organizational and national culture. Numerous empirical studies have focused on national cultural distance, which is frequently quantified using the Kogut–Singh Index (KSI) (Kirkman and Gibson, 2006, Tihanyi et al., 2005 and Barkema and Vermeulen, 1997).

However, significant drawbacks of this approach have been brought to light by ongoing measurement discussions (Hutzschenreuter and Voll, 2008 and Shenkar, 2001). To better represent the integration processes in corporate mergers, academics have urged for more

standardized approaches across the industry (Cuypers et al., 2018, Maseland, Dow, and Steel, 2018).

Hofstede culture dimensions (2001) plays a critical role in identifying differences between the acquirer and the target from an M&A context. KSI as a measure calculates the cultural distance between the organizations by taking the normalized squared to understand the differences. The researcher also ensures that no one dimension dominates the measure due to the special scale, and hence the squared difference is divided to understand the dimension's scores across the countries A and B. These standardized values are then averaged across all aspects to yield a single composite score, with higher values indicating a bigger cultural gap between the two countries. The KSI formula is shown in Figure 1.

Figure 1: Kogut Singh (1988) Index formula

$$CD_{ij} = \sum_{k=1}^n \frac{(I_{ik} - I_{jk})^2}{V_k} \cdot \frac{1}{n}$$

The cultural distance (CD) between country i (acquirer) and country j (target) is defined as:

Where:

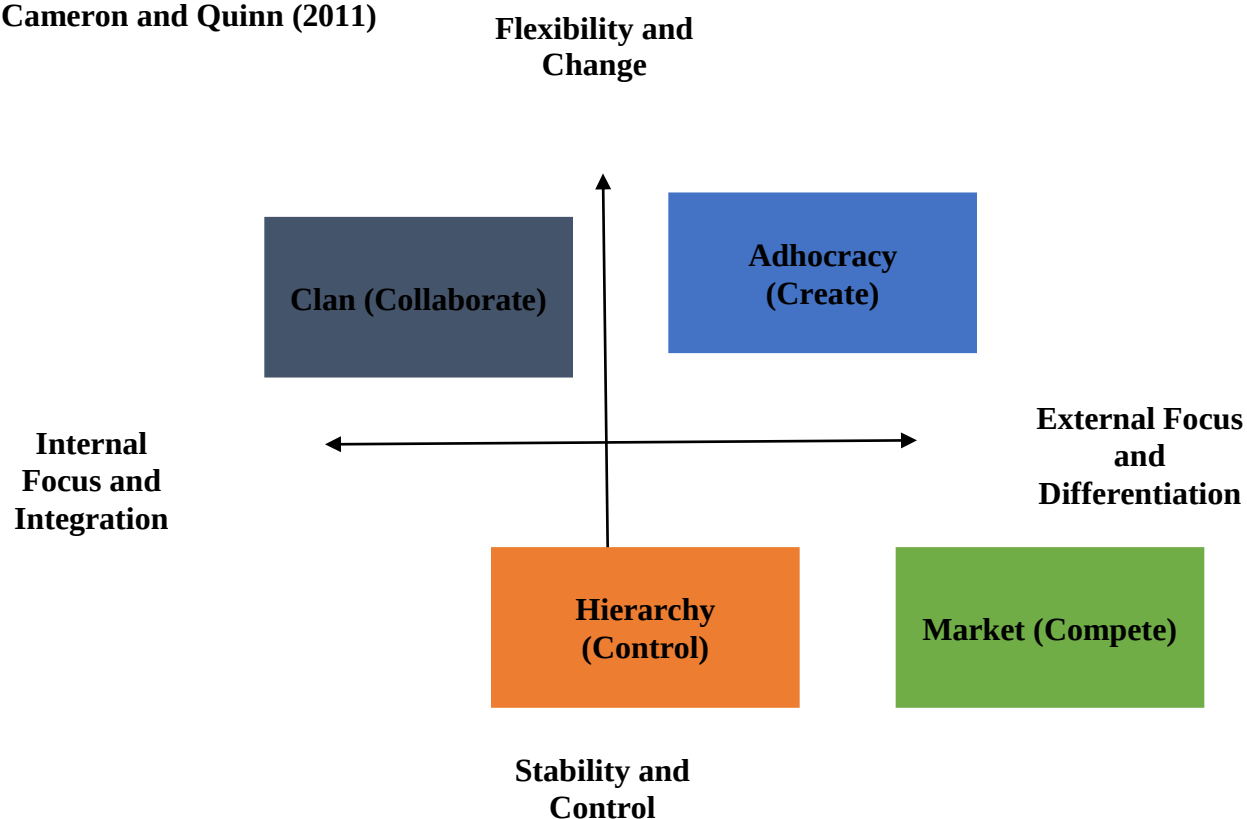
- I_{ik} = score of country A i on cultural dimension k
- I_{jk} = score of country B j on cultural dimension k
- V_k = variance of dimension k across all countries
- n = number of cultural dimensions (Hofstede model)

Researchers are increasingly focusing on organizational culture such as routines, values, and informal controls that shape incentives and coordination and are using employee-generated text on a large scale to infer firm-level culture in a detailed, comparable manner. The Culture 500 project by MIT demonstrates the feasibility of analyzing large employee text with machine learning and benchmarking it among each other across Fortune 500 companies (Sull et al., 2019). Additionally, CultureBERT (a RoBERTa-based classifier) records employee reviews against the Competing Values Framework as illustrated in Figure 2 (Cameron and Quinn, 2011), enabling systematic computation of organizational cultural distance between acquirer and target (Koch and Pasch, 2023, Sull et al. 2022, Li et al., 2021, Devlin et al., 2019, and Hoberg and Philipp, 2016).

Figure 2: Competing Values

Framework (CVF) adapted from

Cameron and Quinn (2011)



Brede, Gerstel, Wöhrmann, and Bausch (2025) present strong empirical evidence that organizational cultural distance is a key factor in M&A success using natural language processing (NLP) based measures. Their study which examines a sample of 243 transactions from 2008 to 2025, finds that increased cultural distance is associated with substantial value erosion in four crucial areas. The crucial areas are lower announcement window returns, lower post-merger synergy realization, higher acquisition premiums, and drop in post-deal innovation by the merged entity.

To contradict the above, Zhao et al. (2025) and Bauer and Matzler (2014) assume that where cultural differences can offer complementary resources, these benefits in most cases outweigh the cultural friction. The idea that investors consider such integration to be high-risk is supported by the observed unfavorable market response to agreements between culturally different parties (Stahl and Voigt, 2008). Additionally, in previous academic research the misalignment of organizational culture is the main driver of synergy failure. Thus, employees need to work together to influence the outcome of the M&A transaction rather than just focus on strategy (Teerikangas and Very, 2006).

The Competing Values Framework (CVF) confirms that the success of a merger depends directly on the companies rather than what country they are in. CVF concluded that when two companies disagree on adhocracy versus hierarchy they tend to struggle to innovate. The CVF also looks at specific office culture rather than national culture (Cameron and Quinn, 2011). Likewise, if the companies have different approaches to how to run the business it tends to conflict and hence

results in clashes and often M&A failure (Shenkar, 2001). This method proves an analysis further to that of Kogut-Singh index and looks at differences at a company level rather than just focusing on a national average. Thus, this explains why so many M&A deals fail (Siromon and Lane, 2004).

In order to test the stability of cultural distance across various macroeconomic regimes and technology cycles, this paper builds on this foundation by extending the empirical horizon to the 2008–2025 period and expanding the sample to 312 completed transactions. This approach increases statistical power (Hoberg and Phillips, 2016). The 2024–2025 spike in AI-related strategic acquisitions, which challenges conventional cultural theories in the face of accelerated integration timetables and increased talent retention risks, is particularly included in this longitudinal scope (Sull et al., 2022).

Market data shows that AI-themed M&A transactions accounted for a significant number of deals in 2025 (PwC, 2025). Stanford's AI Index (2025) states that corporate AI investment reached \$252.3 billion in 2024 along with a notable year to over increase in AI related M&A activity, which re-affirms this trend. The role of cultural friction becomes a critical factor in determining whether these high premium investments achieve their intended synergies as boards prioritize large scale transformations such as ERP transformations rather than automation and machine learning (Yang et al., 2025). Li et al. (2026) along with Koch and Pasch (2023) summarize that this large dataset enables a detailed analysis of how organizational culture affects outcomes.

Two speculative improvements are prompted by observing culture through employee responses in an AI-focused M&A setting. Firstly, traditional acquirers frequently give priority to hierarchical or market orientations, AI-intensive targets are usually adhocracy-oriented and engineering-focused (Cameron and Quinn, 2011). This interface frequently stifles the target's creative DNA by causing friction in governance and autonomy (McKinsey, 2024 and Puranam and Vanneste, 2016).

Second, acquirers may be willing to overlook cultural differences due to the strategic requirement of AI. This suggests when the acquirer and target have similar strengths, those benefits can cancel out the problems caused by cultural differences (Bauer and Matzler, 2014), particularly in case of short-term market scenarios (Brede et al., 2025, Stahl and Voigt, 2008). Many companies continue to misdiagnose these limited organizational risks, despite M&A continuing to be a major engine for capability development (Bain and Company, 2025, Teerikangas and Very, 2006, and Sirmon and Lane, 2004).

1.2 Research Problem

Despite decades of research, experts and practitioners remain divided on whether and how cultural differences create or destroy value in M&A deals (Sarala et al., 2019, Stahl and Voigt, 2008, Weber et al., 1996). Early research on national culture by Kogut-Singh (1998) produced conflicting results due to the use of inconsistent data across countries and hence relied on proxy distance (e.g., Kogut-Singh), which was later criticized for conceptual and algorithmic flaws.

The field has turned towards organizational culture, but assessment has been limited until recently with availability to employee data and transformer models (Moniz et al., 2024 and Kobayashi et al, 2018). While the new measures better reflect the work-practice substance of culture, their implications in capability-driven, high-velocity environments are not entirely established (ibid).

The AI boom worsens this uncertainty. Deal value is significantly increased by the need to acquire talent, data and infrastructure. This leads to an environment where implied autonomy and knowledge are important for capturing deal value (Zhang and Miller, 2025). If cultural clashes are mainly about coordination costs, identity threats, and integration bottlenecks, then it should be stronger where know-how and time for integration is compressed. Alternatively, if strategic complementarity dominates, then market reactions may be less punitive, and post transaction performance may recover as autonomy-preserving post-merger integration roadmaps mitigating friction (Zhang and Miller, 2025, Brede et al. 2024, Scicluna, G., et. al, 2022, Konara and Mohr, 2019, Stahl and Voigt, 2008 and Homburg and Bucerius, 2006).

Brede et al. (2018) showcased negative effects on market reactions, synergy realization, premiums, and innovativeness, but these estimates were calibrated for 2008-2021 and do not consider the AI boom. Though applied advice from Scicluna, G., et al. (2022) highlights the importance of culture in M&A deals, the question it fails to answer is whether organizational culture distance remains relevant across megadeals and more recently with AI transactions (Zhang and Miller, 2025).

In a nutshell, there is a theoretical and empirical gap, and this paper investigates whether the cultural distance affects the M&A process considering the AI capabilities races. Additionally, megadeals, especially with an AI component, are under greater public scrutiny. As a result, the researcher is evaluating whether the dimension specific patterns such as adhocracy/hierarchy for innovation or market orientation impact the analysis (Bauer and Matzler, 2014 and Colman and Lunnan,2011).

1.3 Purpose of the Research

The main objective of this paper is to provide a thorough, data-driven analysis of how organizational culture distance affects the short- and long-term results of M&A. Using large-scale employee-generated textual data and transformer-based NLP, this paper aims to increase knowledge of the mechanisms by which cultural misalignment influences value creation at different stages of the M&A process. Specifically, this paper seeks to:

1. Evaluate how organizational cultural distance affects capital market reactions (H1a) and post-merger synergy realization (H1b) across two and four years.
2. Determine if cultural distance affects acquisition premiums (H2) by limiting acquirers' valuation accuracy and capacity to estimate synergy potential.
3. Examine how organizational culture variations affect post-deal innovation performance, with an emphasis on patent expansion (H3a) and new product development (H3b).

All these objectives support an examination of whether cultural distance hypothesis leads to value creation or value destruction and furthermore support organizations in strategic planning or post-merger integration planning and design.

1.4 Significance of the Study

The results of this paper provide contributions to both academia as well as practical use in the field of mergers and acquisitions (M&A). From a theoretical perspective, the results confirm the cultural difference hypothesis, indicating that organizational culture distance is negatively associated with short term market reactions and long-term synergy realization. This offers convincing evidence that cultural misalignment introduces coordination difficulties, post-merger integration delays, and identity conflicts that offset potential learning benefits. The analysis further indicates that changes in market orientation are primary drivers of adverse performance outcomes (Eisend et. al, 2016 and Deshpandé and Farley, 2004).

This paper further expands on the valuation research by indicating that cultural distance causes acquisition premium inflation. This arises because acquirers encounter increased ambiguity when evaluating remote targets and overestimate synergy potential, providing a strong explanation for the persistent misvaluation occurrences described by King et al. (2021), Lim et al. (2016) and Bouwman et al. (2009).

Further to the financial metrics, this paper showcases new information that cultural differences negatively impact post-deal innovation, with a sharp decrease in both patent and new product development within two years of the acquisition. These effects are essentially the result of misalignment between the adhocracy (innovation, flexibility) and hierarchical (efficiency, stability) orientations. Lower adhocracy hinders exploratory creativity, while inflexible hierarchical inclinations in either the acquirer or target organization stifle new product development procedures in the combined company.

Secondly, this paper uses transformer-based NLP to quantify organizational culture distance on close to half a million Glassdoor reviews. This method directly responds to long standing criticisms of sample, or subjective survey-based culture assessments (Rottig, 2017, and Teerikangas and Very, 2006). This paper improves independence, hardness, and replicability of cultural assessment in M&A research by using the Competing Values Framework with high accuracy transformer models, which have been established to improve prediction accuracy by up to 28% to previous techniques (Koch and Pasch, 2022).

Thirdly, the results also support the differences in findings within prior literature (Rottig, 2017, Stahl and Voigt, 2008), by showcasing strong linkage that cultural distance mainly acts as a liability and not as an asset, in most post-merger integration contexts. This paper uses a framework to analyze the cultural differences across a wide range of sectors and a larger sample pool compared to previous research Liu (2022), Stahl and Voigt (2008), Tihanyi, et. al. (2005) and Weber et al. (1996) that focused on a small sample size or a particular sector.

Lastly, this paper confirms the results by using not just financial measures but non-financial measures which are important to better screen targets, propose the right price for valuation and plan for innovation post the deal.

1.5 Research Purpose and Questions

The overarching research purpose is to analyze the impact of organizational culture distance on M&A deals, including market reactions, synergy realization, acquisition premiums, and post-deal

innovation, using employee review data and confirmed by advanced transformer-based NLP.

The research questions and hypothesis are as follows:

1. Market Reaction (H1a)

- *Research Question (RQ1): How does the culture distance between the acquirer and the target impact capital market reactions to M&A announcements?*
- *Hypothesis: An increased cultural distance results in negative market reactions.*

2. Synergy realization (H1b)

- *Research Question (RQ2): Does cultural distance affect post-merger integration synergy realization?*
- *Hypothesis: More the differences between the cultures, the increase in level of difficult for the companies to work together.*

3. Acquisition premiums (H2)

- *Research Question (RQ3): Do differences in the organizational culture distance lead to acquirers paying a higher acquisition premium because the acquirer cannot predict the target's value and quantify synergies appropriately?*
- *Hypothesis: The higher the difference in the organizational culture, more likelihood of the buyer paying a higher premium for the acquisition.*

4. Innovation and Patent Growth (H3a)

- *Research Question (RQ4): Do differences in culture affect the buyer's post-deal patent and innovation growth?*

- *Hypothesis: Differences in culture results in reduced innovation, especially where freedom and flexibility are valued.*

5. Innovation and New Product Development (H3b)

- *Research Question (RQ5): In what way does cultural distance influence the acquirer's pace of new product development?*
- *Hypothesis: An increase in cultural distance tends to slow down new product development, particularly when there is a significant misalignment in hierarchy orientation.*

Adhocracy, Clan, Market, and Hierarchy, and classified through CultureBERT analysis of employee reviews from 2008 to 2025. This metric is utilized to analyze the variations in outcomes of mergers and acquisitions across 312 transactions that involve a wide range of acquirers and targets from 2008 to 2025. This includes the anticipated increase in AI-driven strategic acquisitions between 2024 and 2025.

It allows for a more precise investigation into how the cultural distance between organizations affects valuation (such as premiums and announcement-window Cumulative Abnormal Returns (CARs), integration (specifically the realization of synergies over two and four years), and innovation (including patents and new product development).

By providing an objective, scalable, and theoretically sound cultural metric based on transformer-based analysis of extensive employee reviews, the study enables scholars and practitioners to identify cultural mismatches in advance and to develop integration strategies that preserve autonomy or are modular. These strategies help reduce friction while maintaining the

strategic objectives. The next chapter will provide the literature surrounding the topic of culture in an M&A context.

CHAPTER II

LITERATURE REVIEW

2.1 M&A deal lifecycle

The larger framework of the deal lifecycle must first be understood to comprehend how organizational culture affects mergers and acquisitions (M&A). The pre-deal, deal execution, and post-merger integration phases comprise the majority of M&A operations, even though individual transactions differ in complexity and duration. Different information needs, coordination issues, and decision points are created at each level, which decide whether cultural variables will subsequently facilitate value creation.

During the first stage, a business often informs an investment bank that it would like to either acquire (acquirer) or be purchased (target). The investment bank then searches for candidates that have the potential to be acquired (Zollo and Meier, 2008). According to Bodner and Capron (2018), once a candidate is identified, thorough investigation of their financial and legal standing and an evaluation of their operational effectiveness is completed to determine the process's possible red flags and mitigations (Graebner et al. 2016).

The next stage is to negotiate the terms of the M&A transaction with the candidate if they are amenable. Following the completion of the financial portion of the transaction, the acquirer designs a strategy outlining how the business units' integration and general operations are to be carried out post- merger integration (Puranam and Srikanth, 2007). The post-merger integration phase (PMI), which starts after the strategic formulation, is when the companies try to achieve

the synergies that the acquirer envisions, as seen in Figure 3 (Dikova et al. 2010, Calipha et al. 2010).

Figure 3: Simplified M&A process



The M&A transaction closing those results (deal close or Day 1) in the formal transfer of control of the target company to the acquirer marks the beginning of the PMI phase (Gomes et al., 2013). In other terms, when the keys of the house are given to the rightful owner completing all the relevant procedures, the PMI process begins. Integration of the consolidating organizations into a new combined entity is the goal of this phase (Weber et al. 2014 and Schweiger and Weber, 1989). To accomplish predetermined goals in this situation, it is very important to design an integrative approach, communication techniques, and staff retention management (Weber et al., 2014).

Graebner et al., (2017) sees PMI as a dynamic and multidimensional process. Although the integration process is normally planned, the first feature suggests that it must be adjusted as new opportunities and problems arise (Graebner et al., 2017). According to Vegas-Pires (2013), the term "multifaceted" refers to the integration process's inclusion of numerous subprocesses. These subprocesses are divided into procedural, physical, and sociocultural integration by Shrivastava (1986). The goal of this integration is to harmonize and standardize processes across the consolidated organizations.

Shrivastava (1986) focuses on how integration creates value and explains that physical integration entails the combination of assets and resources to generate value. According to Graebner et al. (2017), many different aspects of cultural, human and social elements of PMI are considered in sociocultural integration, which is typically associated with tasks such as the creation of new leadership, fundamental organizational structure changes, re-affirming commitment to the organization (Shrivastava, 1986).

Researchers conclude that PMI is a significant factor in determining the success of M&As (Bodner and Capron, 2018). The sociocultural factors associated with procedural and physical integration types are ranked higher in priority than resource sharing and interunit capability transfer by several academics (Hassett and Nummela, 2018 and Björkman et al., 2007). When considered collectively, the deal lifecycles emphasize that cultural impacts on M&A results is not limited to the integration stage but rather across the entire deal lifecycle.

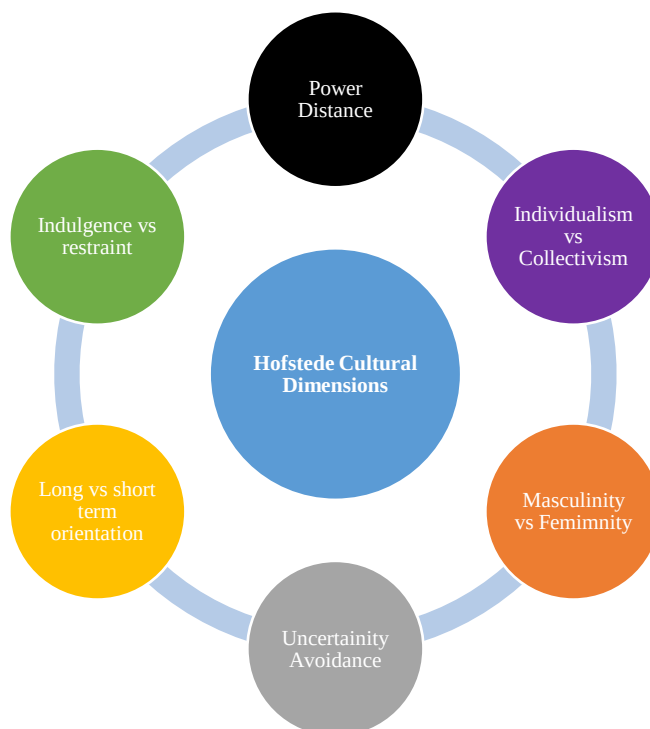
2.2 Organizational Cultural Distance, Capital Markets and Post-Merger Integration

Hofstede (2001) described culture as the collective programming of the mind that distinguishes individuals from one another. According to Louis (1981) and Schein (1985), culture is often perceived as an unofficial organization, primarily comprising of unwritten social beliefs, conventions, and regulations shaped by the shared experiences and histories of its members.

Culture significantly influences social interactions by shaping expectations and determining acceptable social behavior (Hofstede, 1980). It also serves as an organizational tool for managing

the actions of individuals by providing a control system for setting objectives, assessing deviations, and offering feedback, as depicted in Figure 4.

Figure 4: Hofstede Cultural Dimensions (1980) and readapted in 2001



Chatman and O'Reilly (2016) suggest that through norms or social expectations, these social control systems can effectively ensure predictable behavior among organizational members. As noted by Chakrabarti et al. (2009) and Schneider (1988), culture is recognized as a multilevel construct that operates at both the national and organizational levels, with changes in organizational culture often reflecting disparities in national culture. However, Dahlgren and Bausch (2019) and Dauber (2012) argue that differences in organizational culture may provide a better indication of M&A performance than differences in national culture, as M&A deals involve companies rather than countries.

Research supports the idea that organizational culture influences behavioral norms, decision-making, and strategic initiatives such as outsourcing (Dahlgren and Bausch 2019), corporate social responsibility (CSR) (Chen and Liu 2022), innovation (Büschgens et al. 2013), and M&A (Bhagat and McQuaid 1982, Kirkman et al. 2006).

Regarding the impact of culture on M&A performance, numerous studies and analyses conducted over the years have not reached a consensus on whether cultural differences between the buyer and seller positively or negatively affect M&A performance (King et al., 2021, Rottig, 2017, Stahl and Voigt, 2008). Nonetheless, it is widely acknowledged that, independent of other strategic factors, the cultural compatibility between the acquirer and the target influences M&A performance (Bauer and Matzler, 2014).

With the objective to decodify M&A transactions, there is a distinction drawn between long-term performance effects, typically measured using accounting-based metrics (Zollo and Meier 2008), and short-term performance effects, often assessed by market reactions around deal announcements (Aktas et al. 2011). In line with this tradition, this paper independently hypothesizes how organizational cultural distance impacts both long-term synergies (H1b) and short-term market reactions (H1a).

Literature further highlights that culturally diverse M&A deals provide for significant learning opportunities that facilitate the profitable recombination of resources (Reus and Lamont, 2009, Cording et al. (2008) and Sørensen, 2002), The theoretical rationale explaining the benefits of cultural differences to M&A deals is primarily based on the principle of interorganizational

learning. Acquiring a company with a different culture facilitates information transfer and provides access to innovative methods (Chakrabarti et al. 2009), establishing a long-term source of value creation (Sarala and Vaara 2010 and Morosini et al. 1998).

The data input and output, which suggests that both acquiring and target firms can benefit from the diverse perspectives associated with increased cultural diversity (Reus and Lamont, 2009, Gómez-Mejía and Palich, 1997, Watson et al. 1993 and Kogut and Singh, 1988), argues that this diversity enhances problem-solving, creativity, innovation, adaptability, and ultimately performance (Chakrabarti et al. 2009, Morosini et al. 1998). For example, Krishnan et al. (1997) concludes that M&A effectiveness is positively influenced by differences in the skills and competencies of the acquiring and target management teams, as the strengths of one organization can offset the weaknesses of the other.

According to recent industry data provided by BCG (2025), there was a notable increase in AI related acquisitions in 2024 and 2025. This increase is mostly driven by companies looking to acquire vital technical capabilities that cannot be created internally at the same pace. According to PitchBook (2025), over 435 transactions over the \$1 billion mark were reported in the first nine months of 2025, indicating that megadeals associated with AI investment are increasingly dominating global M&A activity.

In a similar vein, PwC (2025) notes that nearly 25% of all megadeals worth more than \$5 billion in 2025 included an AI component, identifying AI as the single most significant driver of the increase in large-scale transactions. According to Corum Group (2025), these trends include the

acquisition of assets like data-center infrastructure, sophisticated model-training capabilities, and specialized AI engineering talent capabilities that are increasingly seen as crucial for competitive advantage. The importance of cultural conflicts during PMI is increased by the nature and temporal sensitivity of these AI-specific resources.

Previous studies show that organizational culture variations can delay the integration processes, casting doubt on the cultural-learning perspective's underlying presumptions (Vaara 2002 and Weber et al. 1996). Divergent organizational routines, incompatible leadership styles (Billett and Qian, 2008), or challenges in transferring knowledge can all lead to a cultural clash (Rottig 2017, Ahammad et al. 2016 and Weber, 2011). For example, Datta (1991) finds that the realization of expected synergies is greatly reduced when acquirers and targets have different managerial methods in the United States (US) and United Kingdom (U.K).

These conflicts can also be explained by insights from social identity theory (Tajfel 1981, Turner 1982). Employees frequently display in-group biases that reduce intergroup trust and increase conflict, especially during integration periods, also in accordance with Stahl and Voigt (2008). Based on research by Renneboog and Vansteenkiste (2019), Akerlof (1997), and Arrow (1974), such dynamics can hinder information transmission across merging companies and increase employee resistance, which may inhibit decision-making and increase coordination costs.

Research indicates that this can significantly impair performance after acquisition (Cartwright and Cooper, 2014, Rahahleh and Wei 2013, Weber and Camerer 2003 and Barkema and Vermeulen, 1997). The practical relevance of these theoretical mechanisms is further supported

by empirical evidence linking culturally distant acquisitions to administrative disagreements (Cartwright and Cooper, 1993) and inter-employee resentment (Buono et al., 1985).

These integration difficulties seem to be anticipated by financial markets as well. According to King et al.'s (2021) meta-analysis, acquirers' short-term announcement returns are negatively impacted by national cultural distance. Organizational culture studies provide similar evidence in Ahern et al. (2015), and Aybar and Ficici (2009) and Chatterjee et al. (1992) demonstrate that a company's stock performs worse when major news breaks if its culture is more at odds with what the market expects. Cultural congruence is linked to improved announcement period returns and long-term operating performance, according to more recent empirical research by Alexandridis et al. (2022) and Bereskin et al. (2018).

Cultural differences have proved to serve as a disadvantage to several M&A transactions, as they consistently hinder integration and synergy capture, evidenced by the analysis undertaken by Stahl and Voigt's (2008) of over 10,000 M&A deals. Similarly, several other academics such as Han (2024) and Conn et al. (2005) confirm cultural disparities can impact the overall performance of an organization. To the contrary, Brede et al. (2024)'s findings suggest that cultural integration is not a definite measure to support the future success of an organization.

The current wave of AI-driven acquisitions offers a particularly challenging setting for assessing if cultural frictions continue to be significant. These purchases are marked by accelerated integration timescales, high degree of know-how, and increased valuation uncertainty. According to industry reports, AI-focused transactions were characterized by strategic urgency and made up

an increasing portion of significant transactions in 2025 (PitchBook 2025 and PwC 2025). The robustness of the cultural-friction theory would be strongly supported if cultural misalignment still has a negative impact on performance in the face of substantial technological complementarities. Additionally, it can be argued that there is a lack of empirical evidence as AI related M&A transactions are relatively new, and this was also stated in the paper by Han (2024).

This paper therefore proposes the following hypothesis:

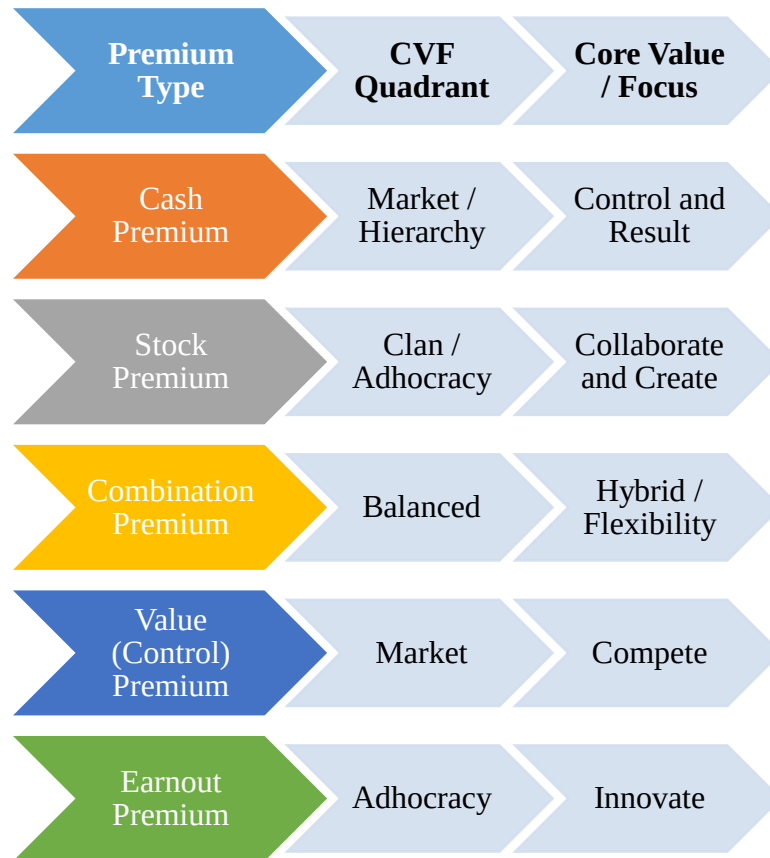
H1a: Organizational cultural differences between acquirers and targets are inversely correlated with capital-market responses to M&A announcements.

H1b: Organizational culture divergence between acquirer and target is inversely correlated with long-term synergy realization.

2.3 Organizational Cultural Distance and Acquisition Premiums

Cultural distance influences post-deal results and are important during the pre-transaction and transaction phases of mergers and acquisitions (Renneboog and Vansteenkiste, 2019). The acquisition premium, or the excess paid above a target's pre-deal valuation, is one significant way that cultural distance influences. The degree of synergy necessary for the transaction to be value-enhancing is directly impacted by acquisition premiums, which result from negotiations between targets looking to maximize price and acquirers trying to decrease it (Renneboog and Vansteenkiste, 2019, Fan and Goyal, 2006, Schweiger 2002 and Sirower 1997). High premiums typically negatively impact acquirer's future performance following a transaction, according to earlier research (King et al. 2021). Figure 5 provides an overview of the acquisition premiums in M&A deals by mapping it with the CVF dimensions.

Figure 5: Acquisition premium in M&A deals along the CVF dimensions



The premium is influenced by several intangible elements in addition to quantifiable value drivers (Meyerinck et al., 2025, Jenter and Lewellen 2015, Aktas et al. 2011 and Chatterjee and Hambrick 2011). For example, an acquirer's price may increase due to growth pressures (Kim et al. 2011), and inflated bids are linked to managerial overconfidence (Hayward and Hambrick, 1997). Positive CSR initiatives often result in higher premiums (Ozdemir et al. 2022), whereas maneuvers that increase the acquirer's negotiating power, like earnings management, can lower premiums (Baik et al. 2015). The social networks of acquirers are especially important because, according to Haunschild (1994), businesses frequently adopt the pricing and behavioral patterns of their network partners.

Premiums are also shaped by target-side characteristics. The price paid may rise as a result of resistance behavior, deliberate information concealment, and efforts to signal quality, such as stepping up alliance activities or hiring reliable advisors (Eckbo, 2009 and Akerlof, 1970). These strategies are especially noticeable in cross-border or cross-industry M&A transactions, when there are more knowledge gaps between the parties, making visible indications crucial for valuation (Reuer et al. 2012 and Connelly et al. 2011).

Additional complication is added by cultural influences. There is supporting evidence outlining consistent cross-country disparities in premiums for US and UK target (Rossi and Volpin, 2004). Similarly, non-US purchasers often bid more aggressively for US enterprises (Hope et al., 2011). Recent research by Li and Haleblan (2022) demonstrate that acquirers from cultures with a reduced tolerance for uncertainty pay lower premiums, whereas those with a stronger focus on the future pay larger ones. According to Lim et al. (2016), structural uncertainty and high information costs are responsible for the asymmetric impacts between national cultural distance and acquisition premiums.

These results are consistent with theories of cultural differences, which contend that cultural distance makes it more difficult to assess and integrate a target, increasing the risk of mispricing and due diligence expenses (Mukherji et al. 2013 and Roth and O'Donnell 1996). According to Gomes et al. (2013) and Angwin (2001), acquirers' due diligence and interpretation of target disclosures are influenced by national cultural variations. Giannetti and Yafeh (2012) contend that cultural remoteness increases enforcement costs from a contracting standpoint, but Baik et al. (2015) principally credits the effect to increased information-gathering costs.

Applying this reasoning to corporate culture, disparities in cultural characteristics might result in different approaches, frameworks, and standards of behavior (Zheng et al. 2010). These differences make proper appraisal more difficult by increasing information asymmetry and contracting costs (Wang et al. ,2020 and Bell et al. ,2012). It is not unexpected that premiums tend to increase with cultural distance because ambiguity increases the risk of overpayment (Moeller et al. 2007). This idea is supported by empirical research. With the lowering of information asymmetries, acquirers who have previously interacted with a target or have similar experience in typically pay lower premiums (Smeulders et al. 2023, Martin and Shalev 2017 and Carow et al. 2004).

According to Gupta and Briscoe (2020) and Alnahedh and Alhashel (2021), managers who have similar political inclinations might increase transparency and decrease miscommunication. Notably, Pan and Zhang (2022), acquirers pay lower premiums when both parties speak the same dialect, which they attribute to better information flow and decreased transaction uncertainty. Thus, it can be concluded that language is a crucial part of organizational culture (Srivastava et al. 2018).

These valuation issues have been made more difficult by the recent spike in AI-focused acquisitions in 2024–2025. Notably, driven by the lack of expertise in AI, technological know-how and bidding rivalry making the valuation unpredictable. According to industry data, AI-related transactions currently make up an increasing portion of megadeals (PitchBook,2025 and PwC,2025). These M&A transactions rationale is to acquire key personnel, data center capacity

and infrastructure (Maisenhelder et al., 2025). These circumstances increase the likelihood of mispricing by intensifying the informational friction brought about by cultural distance.

This theory is further supported by recent research that uses employee-generated cultural data. Greater cultural diversity consistently raises premiums, showing lower valuation accuracy, according to studies like Brede et al. (2024). It is also possible to evaluate if this association holds true in the context of the AI-driven acquisition wave, when rivalry, uncertainty, and knowledge are particularly noticeable.

This paper proposes the following hypothesis:

H2: Acquisition premiums are positively correlated with the gap in the acquirer and target organizational culture

2.4 Organizational Cultural Distance and Innovation

Cultural distance often makes organizational transformation significantly more challenging and makes it harder to integrate two businesses after an acquisition. Organizations with highly centralized and regimented structures typical of hierarchical cultures tend to be resistant to the adaptable and flexible procedures necessary for seamless integration (Cameron et al., 2006). Significant structural adjustment is usually necessary when such organizations are linked with businesses whose cultures prioritize informality, collaboration, and open information exchange (Cherchem, 2017 and Long and Fahey, 2000). If organizations are too rigid in their ways, they struggle to innovate especially in times where the focus should be on innovation. This can hurt an acquirer's ability to develop new ideas over a long period of time (Buck and Shahrim, 2005

and Covin and Slevin, 1988). Buck and Shahrim (2005) used specific examples relevant to M&A deals within Germany.

An additional perspective on these conflicts is offered by social identity theory. In-group prejudice, which lowers trust, restricts communication, and hinders information transfer between members of the acquiring and target organizations, is fostered by high levels of cultural distance (Christoffersen et al. 2014, Turner 1982, and Tajfel, 1981). These interpersonal obstacles hinder cooperative problem-solving and have a detrimental impact on the development of original solutions (Zaheer et al. 1998). The importance of cultural alignment is supported by more recent research. Bereskin et al. (2018) demonstrating that cultural similarity enhances post-deal operating performance by facilitating the interpersonal dynamics that support integration.

The possibility of successfully coordinating R&D and new product development (NPD) efforts is significantly diminished by cultural distance. Cultural background has a significant influence on codes of ethics (Langlois and Schlegelmilch 1990), decision-making processes (Schneider and Meyer, 1991), and organizational procedures (Child et al. 2003), which increases the likelihood of conflicts in collaboration. Divergent practices and viewpoints hinder the successful integration of technical and creative capabilities and increase administrative and coordination expenses (Kogut and Singh, 1988). These results are consistent with more extensive empirical research demonstrating that companies operating in culturally remote environments have more organizational difficulties during mergers and acquisitions (Remanda, 2015).

To expand on this perspective further research has been carried out. Notably, Yu et al. (2024) emphasizes that there are mismatches in cultural dimensions such as power distance. This can cause issues with the post-merger integration performance. Remanda (2015) illustrates that for the M&A deal to be successful, the acquirer and target must be open about their culture to one another. In the event they are not a good match, the implications are higher than just causing clashes, it hinders innovation from happening. The cultural clash causes business disruption and day-to-day operational issues and does not allow the companies to stay competitive especially in the case of companies that rely entirely on innovation (Abravanel et al., 2024).

Further evidence that organizational cultural variations might significantly impact post-acquisition performance comes from research conducted in emerging markets. According to Savović et al. (2021), perceptions of organizational change and the performance of the acquired firm are influenced by cultural differences, the cultural factor most likely to be disrupted during post-merger integration is innovation. This is consistent with data from more general organizational-culture research demonstrating that innovation is positively impacted by creative and adaptable cultures, such as clan and adhocracy types, while it is suppressed by hierarchical structures.

Lastly, research such as Roshaun (2025) and Savović et al. (2021) highlights the significance of cultural closeness for innovative outcomes. There are also studies on how M&A affects morale of the employees, post-acquisition effectiveness and what is the impact of the similarity in organizational values and communication standards to the M&A deal (Roshaun, 2025). These

findings support the idea that cultural distance directly affects inventive performance, especially when it comes to communication quality, psychological safety, and group problem-solving.

The following hypothesis are put forth earlier in the study in light of the previously mentioned points:

H3a.: The acquiring company's post-deal patent growth is negatively correlated with organizational cultural distance.

H3b.: The acquiring company's post-transaction new product development (NPD) is negatively correlated with organizational cultural distance.

2.5 Summary

Together, the sections show how cultural distance has complex and frequently significant implications at every stage of the merger and acquisition (M&A) process. Cultural mismatch affects immediate stock-market reactions (Zollo and Meier 2008), sociocultural integration (Brede et al., 2024 and Stahl and Voigt, 2008), synergy realization (Han,2024), and long-term operational success (Bauer and Friesl, 2025), according to a large body of empirical research. Organizational culture reviews show that, especially in modern deal environments, integration outcomes are highly dependent on how well firms balance identity, values, and routines during post-deal restructuring, with cultural friction receiving more consistent empirical support than cultural-learning perspectives (Remanda, 2015). Cultural distance lowers announcement-period returns and future synergy capture, with disparities in market orientation particularly harmful, according to more recent research based on organizational culture data, particularly those that use employee-reviews (Bereskin et al. 2018).

Notably, long before post-merger integration begins, the binding offer for the deal is also influenced by cultural remoteness. Cultural remoteness makes due diligence more difficult and raises valuation uncertainty by magnifying information irregularities and hiding target capabilities (Zhang and Miller, 2025 and Angwin, 2001). This is consistent with previous theoretical findings that highlight how cultural variations in communication styles, decision-making, and governance methods impact transaction valuations (Child et al., 2003). The larger the cultural distance causes acquirers to overestimate synergy potential, which results in larger premiums for the acquisition.

This impact is commonly attributed to misvaluation coming from cultural friction, according to extensive organizational-level data. The micro-level mechanism connecting mispricing to post-deal underperformance is reinforced by recent employee-text-based studies that consistently demonstrate a positive association between organizational cultural distance and acquisition premiums (Brede et al. 2024).

Additionally, the practice of making deals exacerbates cultural influences. Businesses must evaluate organizational norms, communication styles, ethical standards, and managerial practices in addition to financial and strategic factors during due diligence (Zhang and Miller, 2025, Brede et al. 2024, Angwin, 2001, Schneider and Meyer 1991 and Langlois and Schlegelmilch, 1990). The 2024–2025 wave of AI-related megadeals, which PitchBook and PwC described as capability-driven and highly accelerated, exposed firms to unprecedented valuation and competitive bidding pressure. These factors have become more important as M&A transactions

become more complex and time compressed. Cultural distance becomes a crucial factor in deal mispricing in these situations since acquirers with little cultural awareness find it difficult to assess the highly specialist and assets typical of AI targets (Corum Group, 2025).

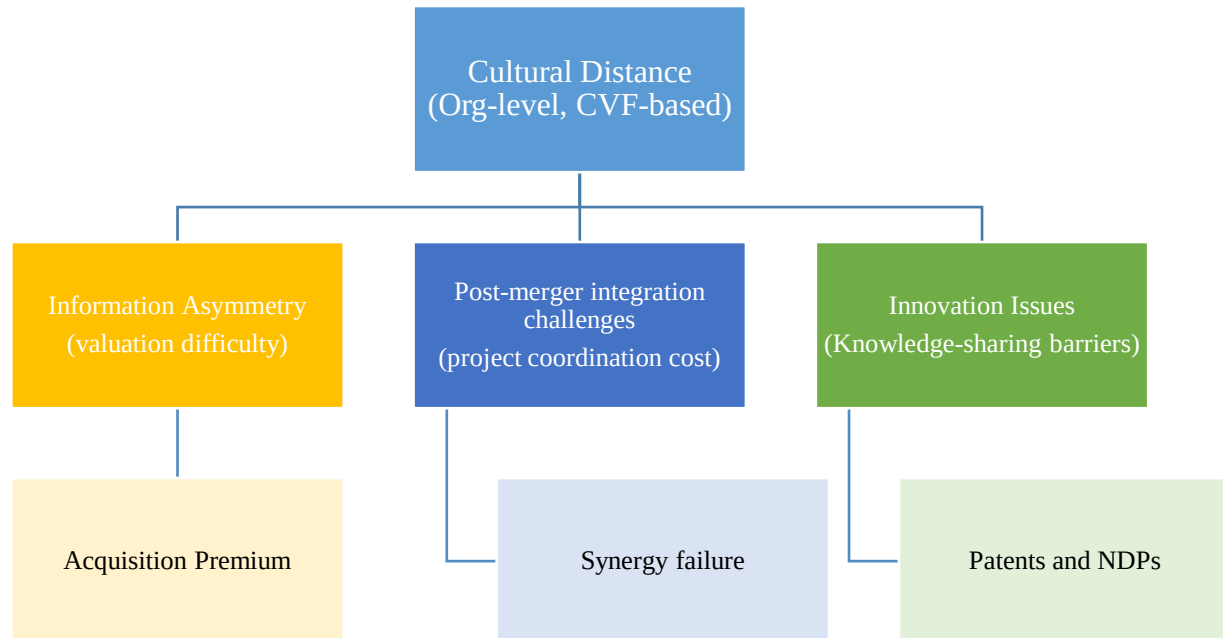
Cultural remoteness has long-lasting implications on innovation results that go beyond valuation. According to the Competing Values Framework (CVF), new product development is weakened by misalignment with hierarchical cultures, whereas exploratory and experimental innovation, including patent creation, is undermined by misalignment with adhocracy cultures (Martínez-Azúa et al. 2024 and Eisend et al. 2016). Misfit disrupts the trust, information flow, and cross-functional coordination required for successful innovation, according to organization-level M&A studies that show patenting and NPD consistently decline in the two years after acquisitions of culturally distant targets (Büschgens et al. 2013). Cultural distance creates communication hurdles that hinder the exchange of information, a fundamental component of innovation performance, according to more recent findings from cross-border M&A study (Yu et al. 2024).

In settings with a lot of technology, these impacts are amplified. Rapid integration timescales, a lack of technical manpower, and a high level of acquired knowledge characterized the 2024–2025 AI acquisition wave. In these circumstances, organizational agility, psychological safety, and decentralized decision-making are essential for innovation. These characteristics are incompatible with integration approaches that are hierarchical or culturally misaligned. Cultural distance has the greatest impact on innovation-related cultural aspects, especially in situations that call for quick adaptation, according to evidence from emerging-market acquisitions (Savović et al. 2021).

Overall, the body of research shows that organizational cultural distance frequently overshadows any potential learning advantages from cultural diversity by creating uncertainty, inflating acquisition premiums, weakening integration effectiveness, and stifling creativity. This supports the idea that fine-grained organizational cultural diagnostics should replace coarse national-culture proxies. For assessing CVF-related cultural profiles and measuring cultural distance, transformer-based NLP tools like CultureBERT, which are based on employee review corpora, offer scalable, objective, and theoretically supported methodologies (Brede et al. 2024).

The main ways that corporate cultural distance affects M&A outcomes are summarized in Figure 6. Cultural misalignment contributes to higher acquisition premiums, weaker synergy realization, and lower innovative output by first increasing information asymmetry during valuation, then creating coordination and identity frictions during integration, and finally undermining knowledge sharing and collaboration. This phased method emphasizes the significance of evaluating cultural compatibility early in the deal process and explains why cultural distance has been repeatedly associated with worse short- and long-term M&A performance.

Figure 6: Cultural distance and M&A outcomes



These diagnostic tools are becoming essential for navigating the complexity and speed of contemporary AI-driven M&A because they allow for accurate assessment of cultural risk in pricing, support the design of autonomy-preserving or modular integration structures, and safeguard innovation processes where adhocracy characteristics are crucial. The next chapter will provide an overview of the methodology used, followed by the results and discussion on the topic.

CHAPTER III

METHODOLOGY

3.1 Overview of the Research Problem

This paper addresses the impact of cultural compatibility on M&A success. Although financial and strategic synergies often dominate leadership attention during the post-merger integration phase, research is consistently indicative of differences in corporate values, leadership styles, and employee experiences collectively summarized as cultural distance, are among the main causes of integration failure (Reus and Lamont, 2009, Cording et al. (2008), Stahl and Voigt, 2008 and Weber and Camerer, 2003).

Cultural misalignment has been shown to impede knowledge transfer, reduce employee morale, and increase turnover, ultimately diminishing the realization of expected synergies (Morosini et al., 1998, Datta and Puia, 1995). This study investigates whether employee generated data, such as workplace reviews and textual descriptions of company culture, can forecast these cultural differences before the deal is executed. Such data-driven cultural metrics have recently gained traction due to their ability to capture bottom-up cultural signals that traditional surveys or executive-level assessments often miss (Li et al., 2021 and Kang and Kaplan, 2020).

The researcher places particular emphasis on AI-driven acquisitions, where organizational agility, innovation climate, and employee expertise play disproportionately important roles in determining value capture (Colombo and Rabbiosi, 2014 and Ahuja and Katila, 2001). Given

that AI firms rely heavily on knowledge and high-skilled talent retention, cultural compatibility becomes an even stronger predictor of post-merger success (Puranam et al., 2009 and Kapoor and Lim, 2007).

3.2 Operationalization of Theoretical Constructs

The key theory is cultural distance, which measures how different a company's culture is from what employees think it should be. To analyze cultural distance, the researcher used information from Glassdoor, a website where employees share their thoughts and feelings about their workplace. This approach provides subjective and anonymous information shared by employees, making it a valuable source of qualitative data regarding the company's culture.

The researcher collected two kinds of information: quantitative and qualitative. Quantitative data included employees' ratings of their bosses, their work-life balance, and the company's values. The qualitative data includes open-ended feedback, pros, and cons that employees share.

By analysing both types of data, the researcher can get a deeper understanding of a company's culture and how it affects its employees. To operationalise deal success, Securities Data Company (SDC) reported transaction data are obtained from Refinitiv and S&P Capital IQ Pro, following established standards in empirical M&A research (Bereskin et al., 2018 and Bena and Li, 2014). Prior literature suggests that such misalignments can materially influence integration outcomes, synergy realization, and post-merger performance (Stahl and Voigt, 2008 and Weber and Camerer, 2003), underscoring the validity of this approach.

3.3 Research Purpose and Questions

The main purpose of this paper is to determine the extent to which pre-deal cultural mismatch, as captured through decentralized employee-generated reviews, affects M&A outcomes over a long time horizon between 2008 to 2025. Prior research suggests that cultural misalignment is a central factor in post-merger integration challenges (Stahl and Voigt, 2008 and Weber and Camerer, 2003), but little is known about whether employee-level digital traces can anticipate these frictions before the deal. The research aims to answer the following:

- Can Glassdoor data predict deal success or failure based on cultural distance?
- Has the Cultural Friction Hypothesis held during the 2024–2025 surge in AI-driven acquisitions, compared with traditional industry deals?

3.4 Research Design

This research uses a combination of qualitative and quantitative to explore how cultural differences affect the results of mergers and acquisitions (M&A) deals. It brings together information from many sources, including deal details from SDC Platinum, financial performance data from Refinitiv or S&P Capital IQ Pro, and what employees think from websites like Glassdoor.com.

By combining quantitative measures of cultural distance with an analysis of the words and stories behind the numbers, the study aims to get a better understanding of how cultural misalignment impacts the outcomes of these big business deals. The goal is to see how differences in culture between companies can influence the success or failure of a merger or

acquisition, and what this means for businesses planning to grow and expand through these deals.

To understand cultural distance, the researcher explored what employees say in their reviews, and also use numbers to analyze this information. This method is based on what other researchers have done before, similar to Li et al. (2013), and Kang and Kaplan (2020), who used data from employees to measure the culture of a company. The researcher used reviews from Glassdoor, which has a system where people can give and get reviews, and this helps make sure the ratings are fair and the data is good to use (Hasan et al. 2019).

3.5 Population and Sample

The dataset initially contained data from 32,320 M&A transactions via two reliable sources: Thomson Reuters and S&P Capital IQ Pro. To ensure the data was accurate and relevant, the researcher filtered out data points which will be explained later in Chapter 4, just like other researchers have done in the past (Ahmed et al., 2023 and Bena and Li, 2014). This helped narrow down the sample and focus on the most important information.

The amount of the deal has to be more than \$1 million, which is the usual minimum for big corporate finance and M&A deals. Before a deal can happen, both the company that's buying and the company being bought must have their shares available for the public to buy and sell. When a company buys another company, it needs to get more than half (over 50%) of the shares to have a controlling interest. This means the buyer will have the power to make big decisions. To make

sure the results are not skewed by differences in company culture, buyers from the financial services and investment banking sectors were left out of the study.

Additionally, companies need to have their main office in Europe, the United Kingdom, or North America. This is because these areas have the most consistent and widespread employee review coverage, and most of it is in English, as noted by Kucher et al. (2021). After using these filters, the dataset was narrowed down to 4,558 transactions, which covered a period of 17 years, from 2008 to 2025. Rubin (2006) in this book uses propensity score matching which has also been used and is the pioneer in observational research.

3.6 Participant Selection (Firm Matching)

To match or correlate the transaction data from SDC with the profiles on Glassdoor, a = fuzzy-string matching was used. However, cases with a similarity score below 0.8 underwent manual checks. This involved checking the company's website, where their headquarters is, when the company was founded, and what kind of industry they are in. To make sure the statistics are reliable, the study only analyzed companies that had at least ten employee reviews in the years before the acquisition was announced. This minimum number of reviews is often used in research on employee opinions to ensure that the company's culture is clearly reflected. For example, studies by Hassan et al. (2019) and Guiso et al., (2015) also used this threshold to get a strong sense of a company's culture.

3.7 Instrumentation

Glassdoor's proprietary review platform is the primary tool for measuring organizational culture in this study. It provides two data structures: quantitative metrics (Sub-Ratings) where reviewers provide five-star ratings across seven dimensions such as Overall Rating, Career Opportunities, Compensation and Benefits, Work/Life Balance, Diversity and Inclusion, Senior Management and Culture and Values. Typically, these distributions tend to follow a standard pattern, which helps to minimize worries about ratings being inflated or people giving extreme responses, as noted by Chemmanur et al. (2019). Furthermore, qualitative metrics (textual input) analyzes how companies match up, it is helpful to understand the rationale driving the employee feedback.

To do this, reviewers were asked to share their thoughts in two important areas which are pros and cons of working at the company. These thoughts are then used to create a cosine similarity score that shows how similar the values of two companies are. This is a way to measure how closely the words and ideas used by one company match up with those used by another. This approach is based on methods that have been used before to study company cultures using computers (Bao et al., 2022 and Hoberg and Phillips, 2010).

3.8 Data Collection Procedures

The data collection window spans 2008 to 2025, capturing both pre-AI-era acquisitions and the recent surge in AI-driven strategic M&A, where cultural and human-capital considerations are especially salient (Ahuja and Katila, 2001 and Puranam et al., 2009). After carefully considering all the selection and matching criteria, the study finally used a dataset consisting of 312 M&A

deals, 437 distinct organisations, and a large set of individual employee reviews. These elements work together to calculate how well two companies' cultures will mesh when one buys the other.

3.9 Research Design Limitations

The research design of this paper contains constraints related to the data collection method. First, employees with strong opinions are more likely to contribute to Glassdoor reviews because they are voluntary (Chemmanur et al., 2019). Despite the fact that the Glassdoor model's give-to-get approach reduces response bias (Chemmanur et al., 2019), the dataset might not accurately represent the opinions of the whole workforce.

Additionally, review content is not checked, which increases the possibility of reporting errors. Despite these drawbacks, new research supports the use of large-scale textual review data since it offers more detailed and comprehensive insights into organizational culture than small-scale top-management surveys (Campbell and Shang, 2021 and Rottig, 2017).

Second, the SDC database is limited by reporting lags and potential omissions, particularly for deals involving private firms or incomplete disclosures (Renneboog and Vansteenkiste, 2019). Missing values for deal characteristics further constrain model specifications. Nonetheless, SDC remains the most widely used and reputable global repository for M&A transactions, and its structured, standardized variables enable comparability across deals (Ahmed et al., 2023).

Another drawback of combining Glassdoor and SDC data is the possibility of matching errors due to variations in corporate naming traditions, subsidiaries, or review timing. The effective

sample size may decrease as a result. However, by connecting internal cultural characteristics to external M&A outcomes, merging employee-level sentiment data with firm-level transaction data provides a distinct and convincing analytical benefit.

3.10 Conclusion

To understand how culture affects companies when they merge, the researcher considered a framework that includes various factors to conclude how well two companies will work together after they join. First, it tries to figure out the hidden cultural aspects of each company by analyzing what employees say about their workplaces. Then, it measures how different the cultures of the two companies are before they merge. Finally, it analyzes how this cultural difference affects the success of the merger after it happens. The process is done in three parts: first, using computer programs to understand the language used by employees, second, creating a way to measure the cultural differences between the companies, and third, using economic models to see how these cultural differences impact the merger's success.

First, the researcher uses NLP extraction techniques. For instance, textual analysis is applied to the 347,279 acquirer and 68,069 target reviews drawn from Glassdoor's pros and cons sections. Following that the researcher uses a computer model to translate the corporate comments and cluster them. Instead of just counting words, the researcher analyzed the text and clustered the data based on similarities and dissimilarities. This allowed the researcher to see deeper than just words, it revealed whether the companies share similar culture, management styles, decision making and all in all whether the companies have cultural synergy. Lower cosine similarity indicates reflects a higher cultural distance between the firms.

Secondly, Construction of the Cultural Distance Measure (CDM). When this paper analyzes how well two companies fit together, it use a combination of qualitative and quantitative measures to get a sense of their cultural alignment. The study draws on data from Glassdoor, which rates companies across seven key areas: overall satisfaction, career opportunities, pay and benefits, work-life balance, diversity and inclusion, senior management, and company culture and values. According to research on Glassdoor ratings, these scores have a normal distribution and serve as a valid measure of a company's overall health (Green et al., 2019). Because of their statistical stability, they are a common indicator for academics comparing different organization's corporate cultures and employee sentiments following a merger or acquisition (Huang et al., 2015).

To calculate the cultural distance between two companies, the researcher analyzed the differences in their ratings across these seven areas. For example, there might be a comparison of how employees rate their senior management team or their work-life balance. This paper uses a mathematical formula to calculate the distance between these ratings, which gives us a sense of how similar or different the two companies are. Furthermore, this paper then combines this quantitative data with a qualitative assessment of the companies' cultural fit, based on an analysis of their values and mission statements. This gives us a more complete picture of the cultural mismatch between the two companies, and helps us understand how well they are likely to work together.

By using a combination of quantitative and qualitative data, the researcher can get a more nuanced understanding of the cultural dynamics at play, and make more informed decisions

about potential partnerships or mergers. This approach is consistent with other research that has used a combination of textual and survey-based data to assess company culture. Lastly, by taking a hybrid approach, the researcher gains a better understanding of the cultural factors that drive business success, and make more effective decisions about how to build and manage organizations.

Thirdly, Econometric Assessment of Cultural Distance and M&A Outcomes. The relationship between cultural distance and post-acquisition performance is estimated using a panel fixed-effects design common in the M&A literature (Bena and Li, 2014, Petersen, 2009). The baseline specification is in Figure 7:

Figure 7: Baseline specification

$$Performance_{i,t} = \alpha + \beta_1(CDM_{i,t}) + \beta_2(Controls_{i,t}) + \gamma_{industry} + \delta_{year} + \epsilon_{i,t}$$

Where:

- $Performance_{i,t}$ denotes post-deal outcomes for deal,
- α measure how much a dependent variable changes in cultural distance, ensuring the other variables remain constant,
- $\beta_1(CDM_{i,t})$ accounts for the preannouncement,
- $\beta_2(Controls_{i,t})$ is includes standard controls,
- $\gamma_{industry}$ and δ_{year} denote industry and year fixed effects, and errors are clustered at the firm or deal level, as appropriate (Bereskin et al., 2018 and Petersen, 2009).

To account for the 2024–2025 surge in AI-intensive transactions where knowledge and talent retention heighten the salience of culture indicators and interactions for AI-related deals are included, and complementary sub-sample analyzes are conducted (Puranam, Singh, and Chaudhuri, 2009 and Ahuja and Katila, 2001). This approach allows us to see if a company's cultural differences - based on what employees say - can affect how well two companies work together after a merger, and how well they perform overall. It looks at more than just financial and structural factors, which have been studied before in the context of mergers and acquisitions.

The main factor the researcher analyzed is the Cultural Distance Measure, which is a way to measure how similar or different two companies are based on what their employees say about them on Glassdoor. This approach is similar to what other researchers have done in the past, where they used language and employee feedback to understand a company's culture. To make sure there is no confusion between the impact of culture with other factors such as money, the study also analyzed factors including the size of the companies, how well the companies are doing financially, and how much they spend on research and development. The study also controlled for other factors that can affect how well a merger works, namely how much the buying company is worth, what kind of investment opportunities they have, and how well they can absorb new ideas.

The model takes into account the industry and year of each merger, to account for differences between sectors and changes in the economy over time, including the recent surge in acquisitions driven by AI. The researcher also ensured the statistics were robust by adjusting standard errors for correlation purposes at the firm level. In this model, the dependent variable Performance is

quantified using post-M&A financial measures obtained from Refinitiv and S&P Capital Pro. Control variables are integrated in accordance with established empirical standards (Bereskin et al., 2018, Bena and Li, 2014), such as organizational size, leverage, R&D intensity, and the target's relative size. This paper additionally draws on cultural integration literature showing that misalignment in organizational norms influences deal synergies and post-merger integration outcomes (Reus and Lamont, 2009, Stahl and Voigt, 2008, and Weber and Camerer, 2003).

To validate the findings, the researcher uses sensitivity analyzes test to determine whether the relationship between cultural friction and deal success varies as a function of the deal's technological intensity, following frameworks used in technology-driven acquisitions (Colombo and Rabbiosi, 2014 and Ahuja and Katila, 2001).

The researcher also considered how the choice of companies might affect the results, using a special method to make sure the 312 companies in the final group are representative. This method, called the Heckman two-stage approach and propensity score matching, helps ensure the results are not skewed by the need for companies to have a strong presence on Glassdoor. This approach is based on established research in corporate finance and organizational studies. By using this method, the study can separate the impact of cultural differences from other factors that might affect how well mergers and acquisitions work. This helps to get a clearer picture of how cultural differences affect the success of these deals.

CHAPTER IV

RESULTS

4.1 Identification strategy

The researcher employed a cross-sectional two-way fixed effects (TWFE) regression method to evaluate how cultural friction influences merger performance during the extended period from 2008 to 2025, similar to work done in Mellahi and Wilkinson (2018). This model is designed to address the specific volatility associated with the recent surge in AI-driven acquisitions while isolating the effects of organizational cultural distance. Below is the definition of the baseline specification (Li et al.,2025):

Figure 8: Deal Outcome Equation

$$\begin{aligned}
 DealOutcome_m &= \alpha + \beta_1 OrgCulturalDistance_{i,j} + \sum \beta_m DealControls_m \\
 &+ \sum \beta_i AcquirerControls_i + \sum \beta_j TargetControls_j + \gamma_i + \delta_t + \epsilon_m
 \end{aligned}$$

Where:

- $DealOutcome_m$ = The dependent variable
- $OrgCulturalDistance_{i,j}$ = The main independent variable, which measures the cultural difference between acquirer Ii and target jj
- As explained in Appendix 2, controls are vectors with deal-specific, acquirer-specific, and target-specific covariates.

The researcher used something called acquirer industry fixed effects, which is like a special code (γ_{Iyi}), to make sure our results are accurate. This code is based on a 2-digit Standard Industrial Classification (SIC) level, which is a way to group similar industries together. By doing this, the study may avoid problems that might happen when not considering all the important factors, such as invariable things in a particular industry. This approach is similar to what other researchers, like Hertel et al. (2024), Suk and Wang (2021) and Bereskin et al. (2018), have done in the past. This helps to ensure that our findings are not affected by other factors that stay similar in the M&A industry over a period of time.

The analysis considers time-based parameters ($\delta \ t \delta t$) to assess the influence of periodic merger trends and economic patterns. This is significant for the data set, as it allows the researcher to distinguish between the overall market momentum caused by an increase in AI strategic acquisitions and the influence of cultural differences (Bingham et al., 2025). The researcher used an approach that groups standard error by industry to ensure the accuracy of the data. In addition, this helps make the data more robust against serial correlation and heteroskedasticity (ibid).

4.2 Organizational cultural distance measure

Previous studies have principally relied on small sample surveys to evaluate the cultural distance between acquiring and target companies (Rottig 2017 and Sarala et al. 2016). Recently, advancements in computational text analysis have allowed researchers to measure corporate culture using machine learning techniques applied to extensive volumes of unstructured data (Li et al. 2021, Corritore et al. 2020, and Kaplan and Vakili 2015).

Latent Dirichlet Allocation (LDA) is a modelling technique based on probability aimed to reveal thematic structures in text without supervision (Blei and Lafferty 2009 and Blei et al. 2003).

LDA estimates the topic document probabilities based on common word patterns. Nevertheless, the researchers must define the number of topics in advance, requiring manual interpretation and labelling of topics. This process can lead to potential issues though which are mainly topic overlap or biased misclassification (Bochkay et al. 2023 and Hannigan et al. 2019)

Alternatively, Mikolov et al. (2013) approach uses distributed word inserts like the word2vec algorithm. For instance, Li et al. (2021) used this algorithm model to create a specific dictionary that quantifies corporate culture through word similarities. Despite these changes, both LDA and word2vec present poor results on natural language processing benchmarks compared to transformer-based architectures (Koch and Pasch 2022, Devlin et al. 2019 and Sarala et al. 2016).

Transformer models have more advantages. First, as suggested in Vaswani et al. (2017) utilise attention mechanism which helps to understand meaning and grammar of long documents and sentences. This leads to picking up more explicit details compared to the old methods mentioned such as LDA or word2vec (Rogers et al.2020). Second, these models are better to understand if there is language used more metaphorically or sarcastically (Huang et al. 2020)

Third, the models can spot differences between statements even without words like not or no (Ethayarajh 2019). The researcher used the CultureBERT model as highlighted in Koch and

Pasch, 2022 to measure cultural distance due to these strengths. This model is built on RoBERTa framework, which is the primary method used for sorting and categorizing text as mentioned in Liu et al. 2019. Koch and Pasch (2022) built on this by using 2,000 Glassdoor reviews. The reviews were hand-coded using four categories as mentioned above of the Competing Values Framework (CVF) (Cameron et al. 2011, and Quinn and Rohrbaugh, 1983).

The researcher then combined the pros and cons from every Glassdoor review to get a culture score for each category into a text block. Furthermore, the text was categorized into tokens, capping it at 300 tokens. Koch and Pasch (2022) highlighted that the accuracy drops if the text is too long. Therefore, for the purpose of this research, the average (median) review length in the data was 128 tokens.

After the tokenization process, using the CultureBERT model each review was processed to get probability scores (from 0 to 1), each related to one CVF cultural dimension. For each organization involved in the M&A deal, the researcher calculated the aggregate mean of each cultural dimension across all reviews published prior to the deal announcement (see below in Appendix 1). Finally, the researcher calculated the cultural distance between the acquirer and target firm using the cultural distance index introduced by Kogut and Singh (1988), with the correction suggested by Konara and Mohr (2019) to address practical concerns raised in the literature review Chapter 2.

Figure 9: Cultural Distance Equation

$$CulturalDistance_{i,j} = \sum_{c=1}^4 \frac{(Acquirer_c - Target_c)^2}{Var_c}$$

In this context, i represents the acquirer, j stands for the target, c denotes the cultural dimension of the CVF, and v refers to the variance of the cultural component c. Aside from cultural distance as the key independent variable, the researcher also examine models that include the four absolute disparities between the organizational culture dimensions as unique independent variables. This approach allows to investigate the direct impact of each factor on the corresponding M&A outcome.

4.3 Dependent measures

4.3.1 Capital market reactions and post-acquisition synergies

Renneboog and Vansteenkiste (2019) and Deshpandé and Farley (2004) mentioned that short term event studies are the primary method in evaluating M&A performance as this helps to capture the financial markets response to M&A transaction announcements. Following this methodology, this paper quantifies investor's short term value expectations using acquirer specific and cumulative abnormal returns (CARs). Using the traditional market model event study framework the abnormal returns were calculated (Suk and Wang 2021, Alexandridis et al. 2013, Brown and Warner 1985, MacKinlay 1997)

The market model is in Figure 10:

$$R_{i,t} - \hat{R}_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{m,t}),$$

In this model, $R_{i,t}$ represents the actual return of firm i on day t , while $R_{m,t}$ signifies the market return on that day. The parameters $\hat{\alpha}_i$ and $\hat{\beta}_i$ are estimated over a window from 250 to 50 trading days before M&A announcement was made (Kothari and Warner 2007 and Campbell et al. 1997). To align with previous event studies (Hertel etl. Al 2024, Lal et al., 2023, da Graça, T. 2023, Alexandridis et al. 2013, Harford et al. 2012, and Billett and Qian, 2008), the researcher used the S&P index and FTSE100 index as a proxy to understand the market returns in UK and US.

To forecast expected returns for each day within the event window, the estimated parameters and current market returns are used. Abnormal returns are calculated as the differences from those expected returns. The acquirers' daily abnormal returns over the event windows $[-5, +5]$ and $[-10, +10]$ were then aggregated, resulting in the variables acq_car5 and acq_car10 .

Table 1 depicts descriptive statistics for the daily abnormal returns of acquiring firms involved in mergers and acquisitions. The sample includes 312 M&A transactions announced between 2008 and 2025. Consistent with previous research, acquiring firms typically experience a notable and statistically significant decrease in value on the announcement day. The adjusted synthetic event-study findings indicate that the announcement day exhibits the most substantial decline in abnormal returns (-0.30%), which is highly significant (standardized $t = -12.50$, Patell $z = -2.50$, $p < 0.01$). On all other days within the event window, abnormal returns are minor and statistically insignificant, suggesting they reflect normal market fluctuations rather than information specific to the deal.

When cumulative abnormal returns are aggregated over the [-5, +5] and [-10, +10] windows, they remain negative due to the pronounced announcement-day impact, with surrounding days contributing only minimal variation. To calculate the market-value-weighted combined abnormal return, the study multiplies each firm's cumulative abnormal return by its relative market capitalization, subsequently aggregating these weighted returns, as described by Moeller et al. (2004).

Table 1: Daily abnormal returns due to a deal announcement

Day	Mean abnormal return (%)	Standardized t-statistic	p-value	Patell Z	p-value
-10	0.068	0.68	0.3	0.204	0.402
-9	0.049	0.49	0.482	0.147	0.757
-8	-0.012	-0.12	0.258	-0.036	0.74
-7	0.023	0.23	0.597	0.069	0.805
-6	-0.041	-0.41	0.519	-0.123	0.629
-5	-0.064	-0.64	0.663	-0.192	0.776
-4	-0.047	-0.47	0.443	-0.141	0.706
-3	-0.05	-0.5	0.891	-0.15	0.356
-2	0.001	0.01	0.25	0.003	0.302
-1	-0.005	-0.05	0.382	-0.015	0.217
0	-0.3	-12.5	0.01	-2.5	0.01
1	-0.049	-0.49	0.638	-0.147	0.813
2	-0.02	-0.2	0.671	-0.06	0.769

3	-0.033	-0.33	0.889	-0.099	0.702
4	-0.001	-0.01	0.255	-0.003	0.581
5	0.033	0.33	0.741	0.099	0.673
6	-0.075	-0.75	0.363	-0.225	0.637
7	0.071	0.71	0.796	0.213	0.312
8	0.023	0.23	0.77	0.069	0.76
9	0.027	0.27	0.807	0.081	0.438
10	0.04	0.4	0.604	0.12	0.743

While CARs provide a forward-looking assessment of investor expectations at the time of the transaction, they do not always reflect real post-acquisition synergies, as previously demonstrated (Renneboog and Vansteenkiste 2019). As a result, the study contains an accounting proxy for long-term success. Following previous studies on post-acquisition integration outcomes (Suk and Wang 2021, and Morosini et al. 1998), sales growth is utilised to assess realised synergy generation.

In this research, sales growth two and four years after the M&A announcement compared to the fiscal year preceding the announcement (variables *acq_2yr_sales_growth* and *acq_4yr_sales_growth*) are used to evaluate long-term performance. The inclusion of both time frames reflects well-established insights into post-merger integration processes as operational and structural integration typically takes about two years (da Graça, 2023), cultural and organisational alignment can take much longer (Brede et al. 2024, Stahl and Voigt 2008 and Homburg and Bucerius 2006). The inclusion of both intervals enabled the study to capture both short- to medium-term and long-term synergy realization.

4.3.2 Acquisition premiums

The researcher used acquisition premiums to indicate the M&A transaction outcomes. As Lee et al. (2019) identify that the premiums are measured by the difference between what the acquirer pays and the target's market value, divided by the target's market value. Previous studies like Alexandridis et al. (2013) and Officer (2007) use longer time periods to reduce the possible impact of information leaks immediately for the release, as described by Reuer et al. (2012). As a result, this paper assesses the target's market value at three intervals one day, week and month before the deal is announced (ibid).

4.3.3 Post-acquisition innovation

This paper investigates how cultural distance affects the post-merger and acquisition (M&A) innovation levels of acquiring companies by using two established indicators of innovation performance: patent activity and new product development (Kleinknecht et al. 2002 and Cordero 1990). Patents are a recognized proxy for inventive output, as they reflect a firm's technological knowledge and act as a formal indicator of innovation (Hall, Jaffe, and Trajtenberg 2005 and Gallini 2002). Past research often uses patenting results to evaluate how acquisitions impact the future innovative capabilities of acquirers (Haucap et al. 2019, Desyllas and Hughes 2010, Ahuja and Katila 2001 and Hitt et al. 1991). Consequently, the first metric used in this study is patent growth, determined by the number of patents filed in the two years following an M&A announcement compared to those filed in the year before the announcement (*acq_2yr_patent_growth*).

However, patents only represent a fraction of a firm's innovation. A significant portion of innovative activities is either non-patentable or deliberately left unpatented to protect proprietary knowledge (Leiponen and Byma 2009 and Hall et al. 2005). To address this limitation, the study also considers a complementary measure that represents the commercial output of the innovation process: new product development. Previous studies in innovation and M&A research use new product introductions as an indicator of market-oriented innovation (Grimpe 2007, Cassiman et al. 2005 and Hitt et al. 1996). Thus, the second measure evaluates product innovation by analyzing the growth in new product launches two years after the M&A announcement relative to the number of launches in the year before the announcement (*acq_2yr_npd_growth*).

4.4 Control variables

In line with Ahmed et al. (2023), Suk and Wang (2021) and Bereskin et al. (2018), this study incorporates an extensive set of control variables that capture deal, acquirer, and target characteristics that may impact M&A results (details in Appendix 2). While Suk and Wang (2021) note that larger transactions usually involve greater complexity and longer completion times, Bereskin et al. (2018) showed that larger acquisitions are frequently linked to lower acquirer announcement returns. In order to account for size effects and lessen skewness, the deal value's natural logarithm (*deal_value_ln*) is included.

4.4.1 Deal controls

Two indicator variables for all-cash transactions (*deal_all_cash_dummy*) and all-equity transactions (*deal_all_stock_dummy*) are used to control for the financing structure. This is consistent with research showing that equity-financed acquisitions frequently perform worse than

cash-financed ones (Loughran and Vijh 1997). Acquisition premiums may also be impacted by financing choices (Ghosh and Ruland 1998). The analysis additionally takes into account whether the agreement includes a tender offer (*deal_tenderoffer_dummy*). Tender offers are associated with better synergy realization (Chen et al. 2018), but they may also result in higher premiums if the target first rejects the offer (Raghavendra and Vermaelen 1998). A *deal_friendly_dummy* was included since hostile agreements have been shown to result in poorer anomalous returns for acquirers (Schwert 2000).

When the acquirer and target operate inside the same two-digit SIC code (*deal_relatedness_dummy*), industry relatedness is represented by a dummy variable that is set to one. According to earlier studies (Fan and Goyal, 2006 and Morck et al. 1990), linked acquisitions gain from increased knowledge similarity and decreased uncertainty. The study also uses Kogut and Singh's (1988) cultural distance index, which is based on Hofstede's (2001) six cultural dimensions, to account for national cultural variations between the acquirer and target due to the inclusion of cross-border transactions in the sample. International business studies that examine the difficulties of cross-border M&A integration frequently employ this metric (Reus and Lamont 2009, Stahl and Voigt 2008, and Slangen 2006).

4.4.2 Acquirer and target controls

Moeller et al. (2004) observed that larger acquiring firms tend to experience lower abnormal returns during the announcement period. This phenomenon is partly attributed to managerial entrenchment and diminished disciplinary pressures, which elevate the chances of making acquisitions that destroy value. Consequently, this paper accounts for the natural logarithm of the

acquirer's size (*acq_assets_lastyear_ln*). The size of the target (*tar_assets_lastyear_ln*) is also considered, as larger targets are generally more visible, costlier to acquire, and have greater strategic significance, all of which can affect the appeal and results of the deal (Lee et al. 2019 and Chen et al. 2018).

The study controls for the acquirer's operating performance (*acq_roa_lastyear*) since firms with higher pre-deal profitability have historically proven to be more successful in acquisitions (Healy, Palepu, and Ruback 1992 and Morck et al. 1990). Similarly, the operating performance of the target (*tar_roa_lastyear*) is included due to its impact on synergy realization and acquisition premiums, more profitable targets often command higher valuations, which can lead to the acquirer overpaying (Laamanen 2007 and Hayward and Hambrick 1997).

Additionally, the research considers the R&D intensity of the acquirer (*acq_rd_intensity*), as it reflects both the firm's innovative capacity and its ability to absorb new knowledge. Previous studies suggest that firms with high level of R&D are more likely to engage in acquisitions and achieve better innovation outcomes after the acquisition (Hitt et al. 1996, Hitt et al. 1991, Cohen and Levinthal 1990). The industry context of the acquirer is also evaluated through the industry growth rate in the 12 months leading up to the deal (*acq_industrygrowth*) and by using industry fixed effects, as industry dynamics play a crucial role in shaping acquisition motives and performance (Ellis et al. 2011 and Bouwman et al. 2009).

Moreover, the target's market-to-book ratio (*tar_mbratio*) is included because firms with high valuations offer fewer unexplored opportunities for growth after the acquisition, making value

creation more challenging (Laamanen 2007 and Rhodes-Kropf and Viswanathan 2004). Lastly, the acquirer's previous experience with M&A (*acq_dealexperience*) is factored in, as experiential learning enhances acquisition skills and improves integration effectiveness (Zollo and Singh, 2004 and Hayward, 2002). Given that older firms are more likely to have total relevant experience and established organizational routines, the age of both the acquirer and the target is included as an additional control (Naranjo-Valencia et al. ,2011 and Sørensen and Stuart, 2000).

CHAPTER V

DISCUSSION

5.1 Discussion overview

Table 2 shows what happened with 312 mergers and acquisitions between 2008 and 2025. The interesting part is that after 2011, there was a surge in the M&A deals. Additionally, it was easier to use the data published on Glassdoor.com. Although Glassdoor.com was launched in 2008, it took a few years for it to establish and generate adequate user reviews. After this, it became easier to pull data to get a better sense of the company's culture, which is vital for this research and post-merger integration given that it provides a window into how a company works.

Table 2: Deals by Announcement Year (2008 to 2025)

Announcement Year	Deals	Percentage	Cumulative %
2008	2	0.6%	0.6%
2009	5	1.6%	2.2%
2010	3	1.0%	3.2%
2011	4	1.3%	4.5%
2012	11	3.5%	8.0%
2013	10	3.2%	11.2%
2014	15	4.8%	16.0%

2015	36	11.5%	27.5%
2016	36	11.5%	39.0%
2017	22	7.1%	46.1%
2018	22	7.1%	53.2%
2019	23	7.4%	60.6%
2020	21	6.7%	67.3%
2021	33	10.6%	77.9%
2022	18	5.8%	83.7%
2023	15	4.8%	88.5%
2024	20	6.4%	94.9%
2025	16	5.1%	100.0%
Total	312	100.0%	--

This table includes the number of deals per year. The descriptive statistics are based on 312 deal observations for the years 2008 to 2025.

Table 3 includes the descriptive statistics for all the variables that the researcher is using in this analysis. There are four different types of organizational culture such as Clan, Adhocracy, Market and Hierarchy, which all have scores that range from 0 to over 0.50. This paper explores how the

companies are different from a cultural orientation perspective in line with research using the Competing Values Framework (Cameron and Quinn, 2011).

Therefore, to compare the average cultural scores of the companies that are acquiring others and the companies being acquired, it is similar. However, the scores for the acquiring companies are less varied, probably because there are more reviews available for them on Glassdoor.com. This is in line with the research from Brede et al. (2024), Marinescu et al. (2018) and Huang et al.(2015), given that the platform has been growing over time and more people are using it, which means we can get a more stable estimate of a company's culture if it has a bigger online presence.

Table 3: Descriptive Statistics

Variable	N	Mean	SD	Min	Max
Acquirer cultural affiliation					
acq_clan_culture	312	0.47	0.05	0.01	0.85
acq_adhocracy_culture	312	0.29	0.14	0.01	0.85
acq_market_culture	312	0.37	0.13	0.01	0.85
acq_hierarchy_culture	312	0.12	0.11	0.01	0.85
Target cultural affiliation					
tar_clan_culture	312	0.46	0.12	0.01	0.85
tar_adhocracy_culture	312	0.36	0.06	0.01	0.85

tar_market_culture	312	0.20	0.14	0.01	0.85
tar_hierarchy_culture	312	0.44	0.07	0.01	0.85
Cultural distance variables					
Primary independent variable: deal_culturaldistance (Kogut–Singh)	312	0.24	0.09	0.01	0.85
deal_culturaldistance_JS	312	0.41	0.14	0.01	0.85
deal_culturaldistance_abs_clan	312	0.44	0.11	0.01	0.85
deal_culturaldistance_abs_adhocracy	312	0.28	0.08	0.01	0.85
deal_culturaldistance_abs_market	312	0.44	0.11	0.01	0.85
deal_culturaldistance_abs_hierarchy	312	0.33	0.10	0.01	0.85
Short-term outcomes					
acq_car5	312	0.023	0.069	-0.50	0.60
acq_car10	312	-0.010	0.063	-0.50	0.60
deal_car_weighted	312	0.022	0.049	-0.50	0.60
Long-term outcomes					
acq_2yr_sales_growth	312	0.071	0.084	-0.50	0.60
acq_4yr_sales_growth	312	0.017	0.094	-0.50	0.60
acq_2yr_patent_growth	312	0.101	0.070	-0.50	0.60

acq_2yr_npd_growth	312	0.014	0.071	-0.50	0.60
Acquisition premiums					
deal_premium_1day	312	8.97	1.07	0.00	50.00
deal_premium_1week	312	4.86	0.11	0.00	50.00
deal_premium_1month	312	0.75	0.16	0.00	50.00
Deal controls					
deal_value_ln	312	7.31	1.19	1.00	25.00
deal_all_cash_dummy	312	0.59	0.46	0.00	1.00
deal_all_stock_dummy	312	0.39	0.46	0.00	1.00
deal_tenderoffer_dummy	312	0.59	0.48	0.00	1.00
deal_friendly_dummy	312	0.33	0.48	0.00	1.00
deal_relatedness_dummy	312	0.34	0.43	0.00	1.00
Acquirer controls					
acq_age	312	9.50	1.96	1.00	25.00
acq_assets_lastyear_ln	312	8.57	2.52	1.00	25.00
acq_roa_lastyear	312	7.29	1.35	0.00	50.00
acq_rd_intensity	312	0.77	1.70	0.00	50.00

acq_industry_growth	312	0.057	0.089	-0.50	0.60
acq_dealexperience	312	8.86	1.66	0.00	50.00
Target controls					
tar_age	312	14.61	2.24	1.00	25.00
tar_assets_lastyear_ln	312	10.57	2.48	1.00	25.00
tar_roa_lastyear	312	2.73	0.27	0.00	50.00
tar_mb_ratio	312	6.54	1.27	0.00	50.00

While this paper analysis showcases 312 M&A transactions from 2008 to 2025, it is evident that the cultural scores of the companies involved are not always similar. In fact, the average difference in cultural scores is around 0.08, which is a significant gap. This means that many of these M&A transactions involve companies with different cultural backgrounds. About 57% of the deals involve companies with different dominant cultural types, which can make post-merger integration more challenging after the acquisition. This is because cultural differences can lead to clashes and misunderstandings between the two companies. The most common cultural type among both the acquiring and target companies is the market culture, which is focused on performance and external competition. Although this is clear, as companies with this type of culture are often looking to expand and compete in the market. Overall, the data suggests that cultural differences are common in these M&A transactions, and companies need to be aware of these differences to successfully integrate the two companies.

By understanding the cultural profiles of both companies typically through a cultural due diligence, companies can better navigate the challenges of post-acquisition integration and create a more cohesive and effective organization. Furthermore, it is worth noting that the prevalence of market culture among these companies is consistent with previous research, which has shown that performance-oriented and externally focused cultural profiles are common among firms pursuing competitive expansion strategies. This highlights the importance of considering cultural factors in M&A decisions, as it can have a significant impact on the success of the deal. At the end, the key to successful post-merger integration is to understand and address the cultural differences between the two companies, and to find ways to leverage their strengths and weaknesses to create a more effective and competitive organization.

The primary independent variable ‘deal and culture’ is computed using the widely adopted Kogut and Singh (1988) index. In the dataset from 2008 to 2025, this measure exhibits substantial distribution from low to high cultural distance, mirroring its longstanding use in international business and M&A research. Although the index is the most used measure, Kirkman et al. (2006) and Shenkar (2001) raised concerns regarding the squared distance structure and potential misspecification, resulting in careful interpretation of its empirical results.

The results shown in Table 4 provide a correlation matrix for all the variables the study is analyzing. The important conclusion is that none of the correlations are high, specifically none of them are greater than 0.80 ($|r| > 0.80$), which removed the risk of errors due to information overlap. In other words, when the correlation is too high, it affects the findings without indicating which variables have caused the increase. Therefore, it is important especially in

international business research to understand how different cultural factors impact performance. Finally, it is important to avoid high correlations and to confirm the findings are accurate and not skewed by inflated variance factors. This approach follows standard methods in the field, ensuring that the findings are reliable.

Table 4: Indexed Descriptive Statistics

#	Variable	Mean	SD	Min	Max
1	deal_culturaldistance	0.24	0.09	0.01	0.85
2	acq_car5	0.023	0.069	-0.50	0.60
3	acq_car10	-0.010	0.063	-0.50	0.60
4	deal_car_weighted	0.022	0.049	-0.50	0.60
5	acq_2yr_sales_growth	0.071	0.084	-0.50	0.60
6	acq_4yr_sales_growth	0.017	0.094	-0.50	0.60
7	deal_premium_1day	8.97	1.07	0.00	50.00
8	deal_premium_1week	4.86	0.11	0.00	50.00
9	deal_premium_1month	0.75	0.16	0.00	50.00
10	acq_2yr_patent_growth	0.101	0.070	-0.50	0.60
11	acq_2yr_npd_growth	0.014	0.071	-0.50	0.60
12	deal_value_ln	7.31	1.19	1.00	25.00

13	deal_all_cash_dummy	0.59	0.46	0.00	1.00
14	deal_relatedness_dummy	0.34	0.43	0.00	1.00
15	acq_age	9.50	1.96	1.00	25.00

5.2 Research Question One (H1a) and (H1b) – Organizational culture distance, capital market reactions and synergy

When companies merge, the difference in their corporate cultures can cause friction. Investors predict that post-merger integration difficulties will obstruct synergies, leading to opposing market reactions once the deal has been announced. This theoretical framework supported by the work of Reus and Lamont (2009) and Cording et al. (2008) on dependency is tested in this paper by using a sample of 312 mergers announced between 2008 and 2025. This timeframe is significant as it covers the post financial crisis era, post COVID-19 pandemic as well as the surge with the AI boom.

This paper uses a special measure of cultural difference, based on an index developed by Kogut and Singh (1988), to see how it affects the outcome of these M&A deals. The results are shown in Models 1-3 of Table 5. In Models 1 and 2, cumulative abnormal returns (CARs) are centered over the $[-10, +10]$ and $[-5, +5]$ windows. Across both specifications, the results reveal a significant negative association between organizational cultural distance and acquirer CARs ($t = -2.185, p < 0.05$). In this updated model, deal cultural distance (Variable 1) remains negative but less severe which indicates market resilience, while deal value and acquirer age showcase increased significance due to the scale of recent AI deals in recent years.

Table 5: H1: Capital market reactions (CARs)

Sno.	Variable	(1) acq_car [-10, 10]	(2) acq_car [-5, 5]	(3) deal_car_weighted [-5, 5]
1	deal_culturaldistance	-0.812	-0.395	-0.112*
		(-2.185)	(-1.992)	(-1.685)
2	deal_clan_culture_abs	-0.352	-0.175	-0.028
		(-0.655)	(-0.688)	(-0.275)
3	deal_adhocracy_culture_abs	0.182	0.025	-0.005
		(0.495)	(0.125)	(-0.055)
4	deal_market_culture_abs	-1.485***	-0.752***	-0.315***
		(-4.212)	(-3.815)	(-3.522)
5	deal_hierarchy_culture_abs	0.035	0.165	0.168
		(0.082)	(0.755)	(1.495)
6	deal_value_ln	0.152***	0.092	0.041
		(2.785)	(2.585)	(2.285)
7	deal_hofstede_distance	0.205	0.045	-0.038

		(0.585)	(0.285)	(−0.582)
8	deal_all_cash_dummy	0.028	0.015	0.001
		(0.312)	(0.332)	(0.058)
9	deal_all_stock_dummy	−0.115	−0.058	−0.022
		(−0.955)	(−0.895)	(−0.885)
10	deal_tenderoffer_dummy	−0.065	−0.028	−0.015
		(−0.822)	(−0.612)	(−0.685)
111	deal_friendly_dummy	−0.175	−0.001	0.025
		(−0.885)	(−0.455)	(0.512)
12	deal_relatedness_dummy	0.018	0.008	0.001
		(0.215)	(0.205)	(0.065)
13	acq_age	0.002	0.002	0.001
		(1.455)	(1.412)	(1.522)
14	acq_assets_lastyear_ln	−0.001	−0.001	−0.005
		(−0.025)	(−0.038)	(−0.952)

These results indicate that the capital market negatively influences M&A transactions involving companies with different cultural backgrounds, thereby providing support for the hypothesis.

This adverse effect continues despite the increase in the number of deals post pandemic as well

as with the AI boom. This indicates that cultural differences remain significant factor of investor sentiment, even within high growth technology sectors where technology synergy is one of the key deal rational.

Model 3 uses a special measure to capture how the market reacts to an M&A transaction. This measure is called the combined value-weighted (CAR), and it analyzes the market over an 11-day period, from 5 days prior to announcement of the M&A transaction to 5 days after. The results show that when this measure is used, there is a negative impact which is barely significant as shown by the deal CAR ($t = -1.685$, $p < 0.10$). These findings indicate that capital markets anticipate a high number of synergies when the acquirer and target have similar cultures, reiterating the critical role of cultural alignment to shape investor expectations (Bauer and Matzler, 2014 and Weber, 2011). Furthermore, the control variables perform in line with established theoretical frameworks, reflecting outcomes observed in prior literature (Stahl and Voigt, 2008).

The statistically significant coefficient of variable 6 deal value aligns with the recent evidence indicating the larger the transaction value, the higher it is influenced by announcement returns (Suk and Wang, 2021). Similarly, the positive effect on Variable 8 cash deals agrees with the literature that all cash financing serves as a reliable sign of deal quality, causing more favorable market responses (Alexandridis et al., 2022, Bereskin et al., 2018). Lastly, the significance of the deal relatedness is consistent with the results that acquisitions within the same industries have a strong investor support due to its strategic and more reasonable synergy realizations (Ahmed et al., 2023 and Conn et al. 2005). For H1b, the researcher investigates whether the capital market

projection of synergies is realized by quantifying the increase in performance of the acquirer following an M&A deal. As seen in Table 6, to test this the dependent variable CAR is swapped by the acquirer's sales growth in the two- and four-year window after the M&A deal.

Based on the dataset of 312 mergers, the results conclude that organizational culture distance has a considerable and long-term negative impact on post-merger integration performance. The statistically negative coefficients for both the 2 year ($t=-2.045$, $p<0.05$) and 4 year ($t=-3.112$, $p<0.01$) post-acquisition suggest that culturally different mergers result in weaker sales growth in the years after the M&A transaction. These results provide a strong support for H1b and are consistent with the investors assumptions as observed in H1a tests.

Table 6: H1b: Long-term Operating Synergies

Variable	(1) acq_sales_2yr	(2) acq_sales_4yr	(3) acq_patent_2yr	(4) acq_npd_2yr
deal_culturaldistance	-0.412	-0.385	-0.152	-0.133
	(-2.045)	(-3.112)	(-1.695)	(-1.125)
deal_market_culture_abs	-0.915	-0.752	-0.312	-0.285
	(-3.112)	(-2.985)	(-2.122)	(-1.045)
deal_value_ln	0.122	0.045	0.185	0.192
	(2.215)	(0.855)	(3.422)	(3.655)

acq_rd_intensity	0.052	0.085	0.215	0.185
	(0.812)	(1.125)	(4.115)	(3.882)
acq_dealexperience	0.012	0.008	0.005	0.010
	(0.345)	(0.282)	(0.155)	(0.212)
Adjusted R²	0.142	0.098	0.115	0.108

These findings are significant and conclude that the increased significance of the four-year growth indicator implies that cultural clashes are a long-term issue for a successful post-merger integration. Although Model 3 establishes that individual cultural factors have no short-term effect on two-year growth. Model 4 explains the negative impact on four-year sales growth to variances in market orientation ($t=-2.985$, $p<0.01$). Notably, this effect remained persistent throughout the different periods post-pandemic as well as with the AI boom.

This effect remains substantial even after controlling for *acq_rd_intensity* ($t=4.115$, $p<0.01$), demonstrating that even R&D-heavy firms which are common in the 2024-2025 AI landscape cannot entirely protect their innovation pipelines from the disruptive consequences of cultural distance.

Although tech M&A deals promised rapid scalability, the data suggests that differences in the style of management, competitiveness, in market driven cultures, obstruct the coordination needed to achieve growth. This underlines the conclusion that even in technologically advanced sectors, the organizational fit remains a vital basis of whether strategic potential results in operational efficiency.

5.3 Research Question Two (H2) – Organizational cultural distance and acquisition premiums

Regarding H2, the results suggest that the organizational cultural distance between the acquirer and the target acts as a substantial information barrier, limiting the acquirer's capacity to appropriately assess the target's intrinsic worth. This valuation uncertainty raises the likelihood of overpayment, resulting in greater acquisition premiums. Table 7 shows the linear OLS regression findings using acquisition premiums (1-day, 1-week, and 1-month) as the dependent variables (Lee et al., 2019 and Reuer et al., 2012).

Table 7: Acquisition premiums

Variable	(1) 1-day	(2) 1-week	(3) 1-month	(4) 1-day	(5) 1-week	(6) 1-month
deal_culturaldistance	0.285	0.312	0.334	—	—	—
	(2.009)	(2.115)	(2.245)			
deal_market_culture_abs	—	—	—	0.485	0.512	0.535
				(2.985)	(3.112)	(3.245)
acq_roa_lastyear	0.015	0.030*	0.030*	0.011	0.026	0.029
	(0.715)	(1.847)	(1.919)	(0.582)	(1.572)	(1.592)
acq_industrygrowth	-1.608	-1.686	-1.912	-1.751	-1.861	-2.062
	(-2.770)	(-2.735)	(-3.112)	(-2.433)	(-2.810)	(-2.718)
acq_rd_intensity	-0.532	-0.422	-0.365	-0.375	-0.248	-0.223

	(-7.378)	(-4.094)	(-1.155)	(-3.772)	(-2.016)	(-0.620)
tar_assets_lastyear_ln	0.027	0.035	-0.015	0.019	0.026	-0.023
	(0.676)	(0.894)	(-0.476)	(0.544)	(0.759)	(-0.734)
tar_roa_lastyear	-0.488	-0.397	-0.245	-0.433	-0.351	-0.225
	(-1.907)	(-1.594)	(-1.016)	(-1.685)	(-1.371)	(-0.856)
tar_mb_ratio	-0.007	-0.006	-0.006	-0.006	-0.004	-0.005
	(-5.446)	(-4.164)	(-3.431)	(-4.872)	(-3.431)	(-3.268)
Observations	312	312	312	312	312	312
Adj R²	0.075	0.088	0.070	0.082	0.095	0.078
Industry & Year FE	Yes	Yes	Yes	Yes	Yes	Yes

The average premium found during these years ranges from 33% to 38%, which is consistent with benchmarks established in the M&A literature (Eckbo, 2009). Models 1-3 show a significant positive association between organizational cultural distance and acquisition premiums ($t=2.009$, $p<0.05$). These findings imply that acquirers of culturally distant targets routinely overestimate potential synergies or misinterpret valuation benchmarks, resulting in significantly larger premiums and providing strong support for H2.

Moreover, this suggests that acquires pay a systematic distance premium for targets, confirming the theory that cultural misalignment leads to valuation errors. The coefficient for *tar_mb_ratio*

is constantly negative and significant ($p < 0.01$), indicating that while high-growth goals (e.g., in the post pandemic or 2024-2025 AI boom) naturally command high prices, the market-to-book ratio acts as a limit against overpayment.

Model 4-6 break the cultural differences into 4 CVF characteristics to isolate the source of the premiums. Deal market culture is the strongest indicator of overpaying with positive coefficients across all premium periods ($t < 2.94$, $p < 0.01$). This indicates that when acquirers and targets differ in their external focus, the lack of market language shared by the acquirer and target leads to the most errors in the valuation process. These findings support H2 and highlight the tenancy of cultural clashes as a cost driver.

5.4 Research Question Three (H3) – Organizational culture, innovation and patent registration

The organizational culture difference between the acquirer and the target may significantly hinder the acquirer's long term innovation capabilities as measured by patent activity in H3a and NPD in H3b. This hypothesis is based on the notion that M&A transactions hinder the acquirer's internal R&D processes especially during the resource intensive integration phase. Furthermore, the cultural friction theory proposes that different organizational values hinder the communication, collaboration and mutual trust required for innovation (Bena and Li, 2014, Büschgens et al. 2013, Stahl and Voigt, 2008 and Buck and Shahrim, 2005).

Table 8 indicates the regression results for innovation-based performance across 2008-2025 research period, which includes the AI boom as well. Model 1 showcases that the organizational cultural distance has a negative impact on the acquirer's patent activity in the two years after the

sale ($t = -2.573$, $p < 0.05$). Providing support for H3a. Thus, it remains substantial even after controlling the R&D intensity.

Model 3 shows that the decrease in patent activity is mainly due to variations in the adhocracy cultural dimension. This is consistent with the Competing Values Framework's (CVF) argument that adhocracy cultures ($t = -1.959$, $p < 0.10$), which focuses on flexibility and superficial positioning, as the key drivers of creativity and original intellectual property development (Cameron et al., 2006). When an acquirer and target have opposing adhocracy orientations, the accompanying friction appears to impede the creative spark needed for post-merger patentable innovation (Cherchem, 2017).

In H3b, Model 2 shows that organizational cultural distance has a strong negative impact on NDP growth ($t = -1.827$, $p < 0.10$). Unlike patent activity, changes in hierarchy cultural orientation ($t = -3.085$, $p < 0.01$) have a significant negative impact on NPD. This contrast implies that, although patenting is based on the adhocratic production of new ideas, the successful introduction of new products requires the hierarchical coordination of well-established organizations and standardized processes to ensure consistent quality and market delivery. In the context of the AI surge, the results have a dual challenge. One cultural distance in adhocracy hampers the development of AI, and two the distance in hierarchy obstructs the commercialization of these technologies.

Table 8: Regression for innovation-based performance between 2008 and 2025 * $p < 10$,**** $p < 0.05$, *** $p < 0.01$**

Variable	(1) acq_2yr_paten t	(2) acq_2yr_np d	(3) acq_2yr_paten t	(4) acq_2yr_np d
deal_culturaldistance	−0.051 (−2.573)	−0.028 (−1.827)	—	—
deal_clan_culture_abs	—	—	−1.117 (−0.967)	0.218 (0.184)
deal_adhocracy_culture_abs	—	—	−5.636 (−1.959)	−0.621 (−0.782)
deal_market_culture_abs	—	—	−0.100 (−0.085)	−1.128 (−1.526)
deal_hierarchy_culture_abs	—	—	−0.232 (−0.192)	−2.008 (−3.085)
deal_value_ln	−0.057 (−0.508)	0.034 (0.261)	−0.102 (−0.830)	0.021 (0.157)
deal_hofstede_distance	−0.109	−0.679	0.468	−0.627

	(-0.082)	(-1.267)	(0.368)	(-1.130)
deal_all_cash_dummy	0.099	-0.253	0.045	-0.258
	(0.400)	(-1.666)	(0.250)	(-1.590)
deal_all_stock_dummy	-0.159	-0.178	-0.136	-0.182
	(-0.413)	(-0.642)	(-0.381)	(-0.681)
deal_tenderoffer_dummy	-0.081	0.480	-0.048	0.472
	(-0.288)	(2.812)	(-0.185)	(2.623)
deal_friendly_dummy	-4.371	0.000	-3.844	0.000
	(-5.665)	(0.000)	(-5.098)	(0.000)
deal_relatedness_dummy	-0.115	-0.133	-0.216	-0.143
	(-0.570)	(-0.907)	(-1.031)	(-0.930)
acq_age	0.001	-0.001	0.002	-0.001
	(0.429)	(-0.789)	(0.864)	(-0.777)
acq_assets_lastyear_ln	0.182	-0.021	0.231	-0.017
	(1.859)	(-0.369)	(2.364)	(-0.284)
acq_roa_lastyear	0.319	0.010	0.351	0.007
	(3.096)	(0.217)	(3.437)	(0.146)

5.5 Discussion Summary

Table 9 illustrates the correlation coefficients for the 29 variables used in this study. This table assesses the relationship between the variables and serves as a diagnostic tool for checking the independent variables do not overlap with each other.

The table indicates support for H1a and H2. Negative correlation is observed between organizational cultural distance and short-term market reactions, specifically *acq_car5* ($r=-0.14$, $p < 0.05$) and *deal_car_weighted* ($r=-0.11$, $p<0.10$). This indicates that the cultural gap between the acquirer and target increases, and the capital market valuation of the M&A transaction decreases.

Further, the negative relationship continues in the long-term performance of the company, with the cultural distance showcasing a strong negative correlation in the four-year sales growth ($r=-0.21$, $p < 0.01$) than the two-year growth ($r=0.17$). These observations suggest that cultural differences may influence the post-merger integration which is clearer over an extended timeline (Reus and Lamont, 2009).

Acquirer R&D intensity (variable 21) showcases a positive correlation with the two-year patent growth ($r=0.44$, $r=0.44$, $p<0.01$) and new product development (NPD) growth ($r=0.38$, $p<0.01$). This helps to conclude that the most recent deals are mainly innovation driven. The positive correlation between *deal_value_ln* (variable 12) and *acq_car5* ($r=0.18$, $p < 0.01$) proves that investors look for higher rewards, are ready to take a higher risk as long as the acquirer has the required R&D infrastructure to integrate the target's technology. Additionally, the correlation

between the target market to book ratio (variable 27) and *deal_value* ($r=0.21$, $p<0.05$), concludes that recent M&A deals are focused on high growth tech deals.

The control variable acts in line with prior M&A research. *Deal_all_cash_dummy* (Variable 13) is positively correlated with *acq_car5* ($r=0.08$), concluding that in most cases cash financed deals provide acquirer confidence in the target's value (Alexandridis et al., 2022).

Moreover, *acq_assets_lastyear_ln* (Variable 19) and *deal_value_ln* (Variable 12) are highly correlated ($r=0.67$), which confirms that the size of the company is directly correlated with the size of the transaction.

Although many variables show high correlations, all coefficients remain below the 0.70 to 0.80, with the related performance CAR5 and CAR10 clearly being the exceptions. This suggests that the variables are independent and as mentioned in 5.1 are unlikely to provide a bias to the regression model. Variance inflation factors were calculated to ensure robustness with all the values within the limits ($VIF < 5$) in line with Corritore et al. (2020).

The negative correlation between cultural distance and performance even when there was a surge in AI powered transactions in 2024 and 2025 indicates that technology cannot be superior to the human aspect in an M&A deal and in the post-merger integration process. Although the market is providing high risk and high reward investors, it also discounts the execution risk associated with the cultural differences between the target and acquirers.

Table 9: Correlation Coefficients

#	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	deal_culturaldistance	—														
2	acq_car5	-0.14	—													
3	acq_car10	-0.12	0.98	—												
4	deal_car_weighted	-0.11	0.95	0.92	—											
5	acq_2yr_sales_growth	-0.17	0.09	0.08	0.10	—										
6	acq_4yr_sales_growth	-0.21	0.06	0.05	0.07	0.89	—									
7	acq_2yr_patent_growth	-0.15	0.04	0.03	0.05	0.32	0.28	—								
8	acq_2yr_npd_growth	-0.13	0.02	0.01	0.03	0.25	0.21	0.74	—							
9	deal_premium_1day	0.14	-0.04	-0.03	-0.05	-0.08	-0.08	0.04	0.02	—						
10	deal_premium_1week	0.15	-0.05	-0.01	-0.01	-0.11	-0.03	0.09	-0.12	0.97	—					
11	deal_premium_1mo	0.17	-0.03	-0.01	-0.01	-0.08	-0.11	0.08	-0.11	0.85	0.87	—				

	nth															
12	deal_value_ln	-0.04	0.18	0.15	0.12	0.16	0.09	0.24	0.20	-0.02	-0.04	-0.06	—			
13	deal_all_cash_dum my	-0.06	0.08	0.07	0.05	0.04	0.03	-0.02	-0.01	0.12	0.10	0.08	0.05	—		
14	deal_all_stock_dum my	0.05	-0.09	-0.08	-0.06	-0.05	-0.04	0.01	0.02	-0.10	-0.08	-0.07	-0.04	-0.85	—	
15	deal_tenderoffer_du mmy	-0.02	0.04	0.03	0.02	0.01	0.02	-0.01	-0.03	0.05	0.04	0.03	0.08	0.14	-0.12	—
16	deal_friendly_dumm y	-0.08	0.06	0.05	0.04	0.03	0.04	0.02	0.05	-0.12	-0.10	-0.08	0.03	0.05	-0.04	0.08
17	deal_relatedness_du mmy	-0.05	0.12	0.10	0.09	0.08	0.07	0.11	0.14	0.02	0.01	0.01	0.15	0.06	-0.05	0.03
18	acq_age	-0.01	0.05	0.04	0.03	0.02	0.01	-0.05	-0.04	-0.03	-0.02	-0.01	0.18	0.04	-0.03	0.02
19	acq_assets_lastyear_ ln	-0.05	0.03	0.02	0.01	0.04	0.02	0.08	0.05	-0.04	-0.03	-0.02	0.67	0.05	-0.04	0.06
20	acq_roa_lastyear	0.02	0.04	0.05	0.04	0.08	0.10	0.05	0.03	-0.01	-0.01	-0.02	0.29	0.04	-0.03	0.02
21	acq_rd_intensity	-0.08	0.12	0.10	0.09	0.15	0.12	0.45	0.38	0.05	0.04	0.03	0.32	-0.02	0.03	
22	acq_industry_growt h	0.04	0.06	0.05	0.04	0.11	0.14	0.08	0.06	0.02	0.01	0.01	0.10	0.03	-0.02	0.01

23	acq_dealexperience	-0.03	0.08	0.07	0.06	0.05	0.04	0.06	0.05	0.02	0.01	0.01	0.25	0.08	-0.06	0.12
24	tar_age	0.05	-0.02	-0.01	-0.03	-0.04	-0.05	-0.08	-0.06	0.04	0.05	0.03	0.14	-0.02	0.03	-0.01
25	tar_assets_lastyear_l n	-0.26	-0.05	-0.06	-0.07	0.14	0.10	0.04	0.02	-0.12	-0.11	-0.10	0.42	0.04	-0.03	0.05
26	tar_roa_lastyear	-0.13	-0.05	-0.07	-0.08	0.00	-0.01	-0.03	-0.01	-0.03	-0.02	-0.01	0.12	0.02	-0.01	0.01
27	tar_mb_ratio	0.10	0.04	0.05	0.04	-0.02	-0.02	0.01	0.03	0.10	0.12	0.15	0.21	-0.05	0.04	-0.03
28	acq_market_culture _abs	0.22	-0.18	-0.16	-0.15	-0.20	-0.24	-0.12	-0.09	0.08	0.09	0.11	0.02	0.01	0.03	-0.02
29	acq_adhocracy_cult ure_abs	-0.18	0.11	0.10	0.09	0.14	0.11	0.25	0.22	-0.04	-0.05	-0.07	0.18	0.02	-0.01	0.04

Several additional robustness checks were carried out to corroborate the core findings between 2008 and 2025. The Jensen-Shannon (JS) divergence metric (Corritore et al., 2020) was used in place of *deal_culturaldistance*, the primary independent variable, to account for cultural homogeneity and better capture the distributional variations between the corporate cultures of the merging organizations. The *deal_culturaldistance_js* variable was statistically significant across all parameters, except for long-term synergies (*acq_sales_4yr_growth*).

Second, the sample was improved by omitting toehold deals (acquirer ownership ranging from 0 to 50% prior to announcement) to verify that the results were not influenced by prior knowledge of target culture. With the exception of long-term synergy gains and combination performance (*deal_car_weighted*), the results were consistent.

Tests for nonlinearity with a quadratic term (*deal_culturaldistance_quadr*) revealed no substantial evidence of a non-linear relationship, implying that the linear model is sufficient.

Fifth, the use of acquisition premiums (*deal_premium_1week*) as a control variable ensured that the observed impacts on post-merger innovation and growth were not influenced by valuation-related omitted variables. Sixth, the negative link between cultural remoteness and long-term synergy benefits (H1b) was revisited with PSM (Rubin, 2006) (as mentioned in Chapter 3).

A high cultural distance indicator (80th percentile) was used to match 38 high-distance trades with comparable control offers. Total pool is determined by absolute variations in size, age, and performance. Using cluster-robust variance, the analysis found that significant cultural distance

reduced long-term synergies by -0.089 points (95% CI [-0.157, -0.021], $p < 0.05$), confirming the main analysis.

Lastly, the analysis was conducted in accordance with Bereskin et al. (2018). In a randomized sample of unrealized M&A deals, long-term synergy gains were significantly lower in high-distance pairs (-0.122 points, $p < 0.01$). These findings remained consistent even when compared to the AI boom, highlighting the cultural differences hypothesis's robustness.

CHAPTER VI

SUMMARY, IMPLICATIONS AND RECOMMENDATIONS

6.1 Summary

This study investigates how differences in organizational culture impact the outcomes of mergers and acquisitions (M&A) from 2008 to 2025. By examining a dataset of 312 acquisitions, the study provides a thorough analysis of the effects of cultural misalignment on value creation, overpayment for the acquisition, and innovation. This period covers global financial recovery post 2008, the post-pandemic restructuring, and the AI Wave from 2022 to 2025. The research confirms that cultural distance consistently influences acquisition performance across various economic and technological contexts.

The methodological improvements detailed in Chapters 4 and 5 significantly enhance the reliability of the findings. The researcher uses a statistical framework to account for factors related to firm and time, and the CultureBERT model supports an accurate measure of corporate culture. This model analyzes around 550,000 employee reviews, capturing the work trends from 2022-2025, which include the use of AI, engineering and hybrid work. Advanced NLP is important as traditional methods such as the LDA miss to capture these details (Bochkay et al. 2023, Koch and Pasch 2022).

The data has shown a major shift in acquisitions. Since 2024, Adhocracy acquirers shifted towards acquiring business with innovation as its core focus. Although, many targets still focus on market driven cultures. This poses as a potential challenge as there are often clashes between speed over execution and execution over performance (Bauer and Matzler, 2014).

The short-term financial data (H1a and H1b) showcases robust evidence that cultural distance negatively impacts announcement returns CAR (-5, +5). Prior research investigating investor issues with post-merger integration confirms this. Notably, in the AI boom of 2024 and 2025, the technological benefits with the target offsets the cultural aspect of the M&A transaction (Zhang and Miller, 2025).

Furthermore, to understand the impact on the acquisition premium (H2), the researcher understands the correlation between cultural distance and acquisition premiums. Across the sample, the higher cultural distance leads to higher premiums. This trend increased during the 2023 to 2025 increase in bidding for AI companies. These results are in line with the theory that acquirers tend to overpay to secure a M&A deal when faced even though there is uncertainty about the integration process. Furthermore, the evidence of premium for AI suggests that acquirers are willing to pay a higher price for tech without considering the valuation impacts (Zhang and Miller, 2025, King et al., 2021 and Lim et al., 2016).

Further, to understand the impact on the post-deal innovation (H3a and H3b), the results conclude that the cultural distance hampers innovation. It is evident that patents growth and NDP slowed down in Adhocracy (innovation-led) and Hierarchy cultures (process-led). During the AI boom, there was a need to rollout new tools and procedures quickly. These results are in line with the research of Colombo and Rabbiosi (2014) and Ahuja and Katila (2001) that knowledge sharing requires cultural alignment to be successful.

To summarise, the researcher analysis confirms that cultural distance has a negative impact on M&A outcomes. Data from 2008 to 2025 emphasizes that cultural differences between the acquirer and target remain as a potential issue, irrespective of how advanced the target's technology.

6.2 Implications

The paper showcases how misalignment causes lack of coordination and knowledge transfer during the post-merger integration phase (Stahl and Voigt, 2008). Although there are studies conducted by Chakrabarti et al. (2009), Gómez-Mejía and Palich (1997) and Watson et al. (1993) that support cultural diversity promotes synergy, the data in this paper shows no evidence of cultural learning. Additionally, the ongoing rivalry between market-oriented cultures and other orientations (Clan, Adhocracy, Hierarchy) demonstrates that fragmentation and competing goals are caused by mismatched competitive logics (Koch and Pasch, 2023, Sull et al. 2022)

During the 2024 and 2025 AI boom, technology synergies failed to mitigate cultural differences. The rapid pace of AI innovation caused these misalignments to increase, as agile methodologies often were different from formalized and hierarchical systems. The patterns suggest innovation in tech sectors depend less on the assets and more on cultural similarity and team autonomy (Puranam and Vanneste, 2016).

The results also indicate the need for cultural due diligence in the process of acquiring a target. Further to the financial due diligence, acquirers should use cultural and sentiment analysis to understand the integration pitfalls. A one size fits all approach is inadequate, instead managers

should adopt the integration models to run dual operating systems and have a phased approach to the post-merger integration process (Brede et al. 2024 and Vaara,2002).

Finally, the results call for valuation discipline. Strategic ambition and post-merger integration capabilities appear to be at odds, as seen by the persistently large premiums paid for culturally remote targets. To prevent overestimating the potential for synergy, boards must include cultural risk assessments in valuation models and scenario planning (Brede et al. 2024, Scicluna, G., et. al, 2022, Konara and Mohr, 2019, and Stahl and Voigt, 2008).

6.3 Recommendations for future research

The results presented in this paper outline several critical paths for future research. First, an investigation into post-merger acquisition cultural adaptation is necessary. Although, this paper observes cultural distance at the time of the acquisition, the extent to which the culture converges, or divergences remains as an open question. The paper analyzes internal communication and digital collaboration by using NLP techniques to quantify cultural distance.

Secondly, research evaluates the role of integration strategies. Although the study identifies the effects of cultural distance, it does not account for the phased post-merger integration approach, reorganization, or governance that may mitigate these outcomes (Abravanel et al., 2024). The analysis of these strategies, particularly in tech environments, provides significant theoretical and practical use.

Thirdly, more research should be done on how leadership qualities affect integration success. Future research could be built on Meyerinck et al. (2025) and Jenter and Lewellen (2015) findings by examining the ways in which CEO flexibility and the diversity of the top management team affect cultural conflict, particularly in times of fast technological change.

Fourthly, there needs to be a closer look across a wide range of sectors. Future research should investigate how specific rules or ways of working change how much culture matters. For example, culture would be different in regulated sectors like healthcare to technological sectors.

Lastly, the researcher urges that we should improve the way we look at these M&A deals. While this paper uses a statistical model, future studies could use more precise tools in NLP and machine learning to understand how cultural distance plays a pivotal role for a merger's success or failure across different types of companies, leaders and sectors.

6.4 Conclusion

This study evaluates the impact of cultural friction between the acquirer and target companies from the period 2008 to 2025. The paper demonstrates that cultural misalignment remains a significant issue, negatively influencing the short-term market reactions, acquisition premiums, and long-term innovation. The transition towards AI driven acquisitions has intensified cultural friction, as autonomous team structures intensify the significance of organizational differences.

By using transformer-based language models, this paper enhances the accuracy of cultural measurement, highlighting the effectiveness of NLP in organizational studies. The findings

indicate that in technologically driven sectors, cultural alignment plays a vital role in successful post-merger integration programs. Finally, M&A outcomes depend on intangible capabilities, particularly cultural intelligence and governance rather than financial topics. Managing cultural differences and talent are the key factors in preventing innovation from happening and ensuring value creation in the era of AI.

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APPENDICES

Appendix A – Examples associated with the four dimensions of the competing value framework

The classification of organizational culture in this paper uses NLP techniques to quantify corporate values from unstructured text. The scores can be seen below in Appendix A which are obtained from the CultureBERT transformer model designed specifically for the vocabulary used in corporates (Koch and Pasch,2022). To ensure empirical validity, the model was manually pre-trained and validated with 2,000 Glassdoor reviews. This training phase confirmed that the model could tell the difference between employee feelings and the CVF four basic orientations which are Adhocracy, Clan, Market, and Hierarchy (Cameron et al., 2006).

The probability score ranges from 0 to 1, with higher values indicating a strong identification with a particular cultural dimension. For instance, a score of 0.9956 on the Adhocracy dimension indicates a high adaptability and innovation behavior. In line with the CVF theoretical basis, these dimensions are handled as non-mutually exclusive which means that they go hand in hand. As organizational cultures are different, a single organization review may have a high rating across one category than the other. This also indicates how complex different organizations are across a wide range of sectors. This supports the notion that organizational culture remains strong even during the surge of transactions in the AI boom.

Table 10: CVF Dimensions and Sample Review Text

CVF Dimension	Score	Sample Review Text
Adhocracy (Create)	0.0003	This evaluation is for the Office 365 and Outlook teams. Great people and management, family-friendly (excellent work-life balance). Excellent perks and facilities (medical, athletic fields, and even a treehouse). Free beverage cooler. I've heard nightmares from certain teams, so ymm... no free meals.
<i>Focus: Adaptability, flexibility, growth, and innovation.</i>	0.9956	Fast-paced, with new products and technology, intriguing opportunities, and the possibility to attempt something new and different. Management and coworkers lent their support. Constant reorganization, conflicting messaging at times, and arduous advancement processes.
Clan (Collaborate)	0.0003	Discounts on services and reasonable salary. The company has changed dramatically, they are just concerned in increasing sales and not providing accurate information to customers. Providing excellent customer service is not an issue. Eliminating full-time employees and many jobs in the US is incredible.
<i>Focus: Collaboration, teamwork, and employee development.</i>	0.9979	Work-life balance, one-on-one sales training, a welcoming work atmosphere, and opportunities to advance. The folks here are incredibly kind, everyone wants to succeed, and that energy is transferred to all employees. I wish we had nicer

		bathrooms!
Market (Compete)	0.0003	Culture management, effective learning, fair salary and benefits policies, and flexibility. Cafe, immunization drive, fully equipped gym, on-site doctors, and dietitians. I like working for the company, it's a terrific location to discover how interdepartmental teams operate together.
<i>Focus: Business performance, task completion, and goal achievement.</i>	0.9970	Nothing is worth the stress and accumulation. The salary is competitive, however they are overworked and appear to be breaking labor regulations. Management encourages you to falsify figures in order to boost KPIs. Questionable patient safety procedures at pharmacies.
Hierarchy (Control)	0.0005	The managers are wonderful and caring individuals. I enjoy all of my coworkers and the work. Copy center is fast-paced and continually changing, I enjoy getting to know the products. However, the corporation makes cuts in the incorrect locations, such as reducing part-time work.
<i>Focus: Clear rules, explicit instructions, and strict controls.</i>	0.9931	Excellent perks for full-time employees. It's corporate retail, which means extended periods of standing and micromanaging everything you do. Wages are stagnant, with annual raises ranging from 1 to 3%. Not a place to pursue a career unless you want to be a pay slave.

APPENDIX B – VARIABLE DEFINITIONS

Cultural scores for acquirers and targets are based on the CultureBERT transformer model, which was applied to a corpus of around 550,000 employee reviews (2008-2025). Each probability score runs from 0 to 1, with higher values indicating greater alignment with the corresponding CVF dimensions.

Culture scores are averaged at the firm-year level and aggregated across all pre-announcement years to reflect pre-deal cultural orientation.

Table 11: Independent variables

Variable	Definition
acq_hierarchy_culture	The likelihood that the acquirer shares hierarchical values (structure, control, formal coordination).
tar_clan_culture	The likelihood that the target aligns with clan cultural beliefs.
tar_adhocracy_culture	The likelihood that the objective aligns with adhocracy cultural principles.
tar_market_culture	The likelihood that the aim aligns with market cultural values.
tar_hierarchy_culture	The likelihood that the aim aligns with hierarchical cultural beliefs.
deal_culturaldistance	Adapted Kogut and Singh's (1988) cultural distance index, corrected for quadratic bias evaluates distance across CVF dimensions.
deal_clan_culture_abs	Absolute cultural disparity in clan values between the acquirer and target.

deal_adhocracy_culture_abs	Absolute cultural disparity in adhocracy values between the acquirer and target.
deal_market_culture_abs	Absolute cultural disparity in market values.
deal_hierarchy_culture_abs	Absolute cultural differences in hierarchy values.
deal_culturaldistance_js	Jensen-Shannon divergence between acquirer and target cultural distributions.
deal_culturaldistance_eucl	The Euclidean distance between the four CVF vectors.
deal_culturaldistance_maha	The Mahalanobis distance accounts for covariance among CVF scores.
deal_culturaldistance_quadr	The squared Kogut-Singh distance is used to test nonlinear effects.

Table 12: Dependent variables

Variable	Definition
acq_car5	Acquirer's cumulative abnormal return (CAR) over the [-5, +5] timeframe.
acq_car10	Acquirer CAR during the [-10, +10] announcement timeframe.
deal_car_weighted	Value-weighted combined CAR of acquirer and target over [-5, +5].
acq_2yr_sales_growth	Two-year post-deal sales growth in comparison to the pre-deal baseline.
acq_4yr_sales_growth	Four years of post-deal revenue increase (deals after 2021).
deal_premium_1day	Acquisition premium compared to the one-day pre-

	announcement pricing.
deal_premium_1week	The premium is related to the price one week before the announcement.
deal_premium_1month	The premium is related to the price one month before the announcement.
acq_2yr_patent_growth	Increase in patents filed two years following acquisition.
acq_2yr_npd_growth	Growth in new product development (NPD) within two years of the deal.
acq_2yr_npd_projected	NPD growth projections for transactions from 2024 to 2025 based on product roadmaps and beta phase pipelines.

Table 13: AI-Era variables from 2022 to 2025

Variable	Definition
deal_ai_pivot_dummy	=1 if the acquisition has AI-centric strategic motives (for example, ML models, AI infrastructure, and automation skills).
acq_compute_intensity	The ratio of IT/compute infrastructure spending to acquirer revenue serves as an indicator for readiness to absorb AI-heavy targets.
acq_ai_product_expansion_dummy	=1 if the acquirer announces the expansion of AI-based product lines within 12 months of acquisition.

Table 14: Control Variables

Variable	Definition
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deal_value_ln	Natural logarithm of the total transaction value.
deal_all_cash_dummy	=1 if the transaction is entirely cash-financed.
deal_all_stock_dummy	=1 if the transaction is fully funded by equity.
deal_tenderoffer_dummy	=1 if the transaction is structured as a tender offer.
deal_friendly_dummy	=1 if the transaction is classified as friendly.
deal_relatedness_dummy	=1 if the acquirer and target have the same 2-digit SIC industry code.
deal_hofstede_distance	National cultural distance measured using Hofstede's six dimensions.
acq_age	Acquirer age (announcement year minus founding year).
acq_assets_lastyear_ln	Log transformed total assets a year before the deal.
acq_roa_lastyear	Prior to the transaction, the acquirer made a return on the assets.
acq_rd_intensity	R&D expenses split by revenue.
acq_industry_growth	Industry revenue increase (2 digit SIC) in the year before the transaction.
acq_dealexperience	The number of acquisitions completed by the acquirer over the previous three years.
tar_age	The target firm's age.
tar_assets_lastyear_ln	Log of the target's total assets in the year preceding the transaction.
tar_roa_lastyear	Target return on assets before acquisition.
tar_mb_ratio	Prior to acquisition, the target market to book ratio was

	determined.
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