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► **To cite this version:**

Jonathan Labbé, Mélanie Robert. English private equity financing and merger in Luxembourg: study of the cultural forces on the corporate governance of an SME in the Luxembourg financial sector. 46th EIBA Annual Conference, International Business in the Pandemic and Post-Pandemic Era, Dec 2020, Online, France. hal-03000142

HAL Id: hal-03000142

<https://hal.science/hal-03000142>

Submitted on 11 Nov 2020

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**APPLICATION FOR EIBA 2020
IBR PAPER DEVELOPMENT WORKSHOP**

PAPER TITLE

English private equity financing and merger in Luxembourg: study of the cultural forces on the corporate governance of an SME in the Luxembourg financial sector

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ABSTRACT

This research in progress aims to understand the governance of managerial intercultural relations in the context of a merger of two SMEs in Luxembourg financed by a British Private Equity firm. An analysis of the intercultural environment of the company and of the structure of the forces at play exposes the influence of the multicultural factor on the decision-making process of the merger operation. The literature review, based on theories of governance in SMEs, intercultural management and approaches in terms of varieties of capitalism, highlights the cultural behavioral variables of the relationship between the decision-makers of the merged company. These perspectives crossed with the agency theory approach allow us to build a framework explaining the relationship between intercultural strength and governance mechanisms in a company merger process. The qualitative methodology used is based on four interviews and a study of contextual elements in order to provide material for a content analysis. The results highlight the tensions exacerbated by the SME merger context in the exercise of governance by its actors and shows the influence of the intercultural forces on the decision-making mechanism of the merger project. We conclude by underlining the limits of the study and related other research opportunities.

Keywords: SME, Governance, Intercultural, Private Equity.

INTRODUCTION

Private equity is the "taking of majority or minority stakes in the capital of small and medium-sized enterprises that are generally unlisted.ⁱ "According to France Invest, in recent years it has become the main source of financing for SMEsⁱⁱ, which have managed to weather the economic crisis with their heads held high thanks to their capacity for adaptation and flexibility and remain a major player on the European economic scene, where they numbered no less than 23 million in 2015ⁱⁱⁱ. According to Torrès (1998), "The SME phenomenon is therefore an economic issue and therefore justifies the studies devoted to it. "This is still the case today. If private equity financing supports the development, growth and sometimes the recovery of this type of company, it nevertheless represents a real upheaval with the arrival of a new stakeholder in the company in the person of the shareholder. The choice of financing is not in fact a neutral choice and can lead to a modification of the functioning of the organization through its rationalization (Stephany, 1993). This is all the more true in the case of majority shareholding, which results in the active involvement of the shareholder in the governance of the firm, thus establishing the basis for a new partnership relationship with the managers (Stévenot, 2006). In order to maximize the return on his investment, the shareholder will be concerned with optimizing both his portfolio of holdings and the organizational structures of the companies financed, going as far as, in the case of some private equity firms, increasing the number of acquisition and merger operations. A booming activity influenced by globalization, private equity is now adopting an international profile. Statistical studies have thus revealed a diversification and a geographical breakdown of investors, which has led to the^{iv} multiplication of transnational operations and is giving this type of financing an unavoidable international dimension. Consequently, the arrival of a shareholder from a country other than that of the financed company is a parameter to be considered in the

exercise of the company's governance modalities. However, this exercise becomes more complex when the acquisition or financing is followed by a merger. In a constantly changing environment, the removal of geographical barriers and globalization are driving the search for competitiveness and market positioning through operations and strategic alliances such as mergers and acquisitions. In fact, since the first statistics were compiled in the 1980s, the European M&A market in 2018 was its third best year ever^v. The main objective of this qualitative study is to understand the influence of interculturality on the relations between the actors of corporate governance in the merger context. Our ambition is both to clarify the ways in which the different cultures present are manifested and the underlying stakes for the completion of the merger project. We would like to offer some keys to understand the exercise of power, decision-making mechanisms and information exchange modalities in this highly intercultural context. Our central problem is to understand how cultural forces manifest themselves on governance mechanisms. What is the influence of the international context surrounding the company? What is the impact of the multicultural composition of the management team on the decision-making process? What is the cross-border effect on the exchange of information with an Anglo-Saxon shareholder located across the Channel? And finally, how will these cross-cultural dimensions manifest themselves in the implementation of the merger project?

The interest of this case study and its originality lie in the intersection in the same case of three aspects of multiculturalism, which are the Luxembourg field, an international market par excellence, the cultural and national diversity of the company's management, and the cross-border dimension of a merger operation led in the background by a UK-based private equity firm. A cosmopolitan environment and a financial center that has remained very active despite the economic crisis, Luxembourg has so far attracted little attention from management science researchers. Similarly, the literature on the effects of private equity and also mergers on

corporate governance may take into account the dimension of intercultural management. Therefore, through this case study based on semi-directive interviews with the management of one of the two merged companies, we aim to understand how the forces at play, exacerbated by the specific characteristics of SMEs, by the tension underlying a merger situation, by a variety of management practices specific to each country and to each stakeholder in this context, can influence corporate governance and management decisions. In the first part of our theoretical framework, we will therefore examine the relationship between corporate mergers, governance mechanisms in SMEs and private equity in the light of agency theory, with the intercultural dimension of the merger, the management team and the issues specific to cross-border investments as a backdrop. In this approach, we will rely on a reading grid enlightened by the theories of intercultural management and varieties of capitalism. The methodology and the results explained in the second part will analyze the effects of the multiculturalism of the company at its different levels on corporate governance while underlining the limits of the study in its current state.

1. SMES AND LUXEMBOURG: WHEN SMALLNESS RHYMES WITH PROXIMITY, KEY CHARACTERISTICS AND EFFECTS

1.1 The SME contingent environment

A company merger is in itself a complex phenomenon that must be understood in its context, especially when it involves SMEs, which according to Torrès (1997) are an extremely contingent environment, i.e. subject to internal and external factors of influence. The contingent approach is in fact essential for apprehending the process of change in a small organization, whether it is a merger or otherwise, because the conventions will be strongly influenced by internal and external contextual factors. Even before considering the change that a merger represents, it is necessary to understand the initial organization. While it is

common to accept that a small firm cannot be run like a large one, for several decades now numerous studies have revealed the size effect as one of the main contingency factors influencing the organization and structuring of the firm (Desreumaux, 1992; Blau, 1970). Its size could be an indication of how an organization will be structured and how coordination mechanisms between employees will develop. To quote Mintzberg (1982, p. 20), the functioning of the very small firm is based on informal exchanges between employees and mutual adjustment, and as size increases, a second coordination mechanism emerges, which is direct supervision or "the coordination mechanism by which one person is vested with responsibility for the work of others." Thus the first layers of the managerial structure are elaborated, implicitly inducing the notion of control of the work of the other. The size of the firm generates a certain number of classical effects in SMEs, such as the proximity effect and the magnification effect, which can influence management and decision-making practices. It must however be put into perspective in the case of a firm that opens up its capital with a view to strategically develop its activity. Some would then say that the typical characteristics of the SME are distorted (Torrès, 1997, p. 162) and borrow management practices from large firms, to the point of becoming "the managerial SME [...] this miniature large firm that so many researchers have refused to acknowledge exists". Torrès (1997, p.163) makes a relevant comparison in our context between the classic SME and the managerial SME, attributing among others to the classic SME as key attributes the intuitive, the procedural, the oral, the personalization, the informal, the implicit, and to the managerial SME the planned, the procedural, the written, the formal, the decentralization. This last notion is primordial because it will influence the power structure of the company, and thus the decision-making process, which in a classic SME model is the monopoly of a restricted core of individuals. He also contrasts the local with the global, which in a context of opening up capital to a foreign shareholder makes all the more sense if one can relate the global approach to the mode of

operation of most international organizations, or even multinationals. Comparing an SME with a firm such as a multinational may seem extreme, and yet the idea here is not to standardize or model in a rigid way the functioning of the SME, but to accept that as a contingent environment it will be a question of considering the typical specificities of this type of firm in the light of elements of the contextual situation such as openings of capital or alliances or mergers. Mahé de Boislandelle (2015, pp. 57-58) proposes a classification of the contextual variables of the SME by distinguishing the variables of the organization and those of the environment. The organizational context, according to him, would include cultural characteristics such as the size of the organization, location, ownership of capital, strategic characteristics such as the main strategic orientations or the geographical space targeted, and personnel characteristics such as, in the case studied, multinational origins or cultural values. For the environmental contextual variables, he distinguishes the societal with notably the cultural or institutional aspect, the technico-economic including the market situation or size and the states of the context. This raises the question of the multiplicity of contextual variables that influence the operation mode of an organization sensitive to contingency factors, while bearing in mind that the importance in a case study is not so much to list all these variables exhaustively but to know how to identify those that will have an impact on the object of the study. We will focus here on the cultural variables that can be found both in the environmental context and in the organizational context, i.e. in the location of the organization and in the structure of its staff in the case of collaborators of various geographical and cultural origins. These are all elements which impact the functioning of the company, but also raise the question of the importance of the intercultural dimension as a factor of internal and external contingency during a company merger project, i.e. the need to take this dimension into account, but also to ask whether it can be considered as a factor supporting or hindering this form of change in the organization. Therefore, it will be relevant

in this respect to observe the elements of the environmental context of our company that may influence the course of the merger process, in this case a dense international context concentrated in a small geographical area with no less dense financial core business: Luxembourg. If we can note the double effect of small size between the organization of the SME and this small country of only 2,586 km² for 590,667 inhabitants in 2017, a country considered as one of the richest countries in the world, it is also an area little explored by researchers in management sciences. It would indeed seem from the European Commission's Report for Luxembourg 2019 that the availability and accuracy of statistical data due to the size of the country is an issue. The Grand Duchy of Luxembourg, also commonly called the "place", is focused on the financial sector and gathers nearly 140 banks of various^{vi} origins. The country offers a favorable climate for foreign investment and ranks 20th on the World Competitiveness Index according to the World Economic Forum (WEF) in 2017 because it is one of the most open economies in the world with few exchange controls and free foreign capital circulation. It is supported by an attractive tax system allowing the country to have solid and constant revenues, but also offering a highly qualified multilingual workforce with significant purchasing power. Cosmopolitan par excellence, Luxembourg's population is almost 48% foreigners, spread over about 170 different nationalities^{vii}. It is one of the countries with the highest proportion of non-native foreigners. Thus, nearly 65% of the inhabitants of the capital, where the economic activity is the densest, are foreigners. This pluriculturalism is also reflected among the active population, whose rate of foreigners in 2015 was estimated at no less than 71%, of which 45% were cross-border workers and 26% foreign residents. These details, such as the size of the country and the multicultural specificity of its population, are relevant as reminiscent of certain contextual elements of our study. Indeed, this economic microcosm is distinguished by the density of its activity and a

proximity effect in many respects, a proximity effect that in SMEs will influence managerial practices, as we shall see.

1.2 Managing and controlling in SMEs: magnification and proximity

Awareness of the contingency factors of their company allows the SME management to better understand the mechanisms that enable them to apprehend their environment and the evolution of the organization. Indeed, certain factors support change management in general and merger projects in particular. Knowledge of these factors helps to limit their effects for those that are unfavorable and to optimize the effects of the favorable ones with a view to make the merger project successful. The size of an SME generates a phenomenon of proximity which manifests itself at different levels such as temporal, affective, spatial, interpersonal, among others, which influences management practices. Proximity is the trademark of small companies, but also a factor of competitiveness that distinguishes them from large companies, heavier and slower in comparison. Proximity to the market, for example, based on use of network, but also with employees, allows for reactivity and rapid decision-making. Proximity makes it possible to understand the phenomena observed in SMEs, such as the mechanisms of work coordination by mutual adjustment or direct supervision (Mintzberg, 1982), and may also explain the decision-making process, which is simplified by the presence of a simple hierarchical structure (Mahé de Boislandelle, 2015, p. 385). Similarly, proximity offers a key to understanding the style of communication in this small environment, facilitating direct, transparent, trust-based oral communication between collaborators. "Oral culture takes precedence," says Chevalier (2014, p.167). Same principles apply to knowledge sharing and conflict resolution. Discussions are informal and spontaneous and do not require the written procedures commonly used in large companies. This is not only a consequence of the organizational configuration of the small company, but also a sought-

after state of affairs. Farvaque and Lefebvre (2010) mention a naturalization of the interpersonal and a personalization of relations with, at the heart of exchange modes, the paternalistic figure of the manager in an "old-fashioned model". Torrès (2003), drawing on the work of Gueguen (2001) and Mahé de Boislandelle (1996), offers a diagram illustrating the microcosm of the SME with its different forms of proximity, which helps understand its coordination, communication and decision-making mechanisms. Proximity can have beneficial effects for the firm, but it also constitutes a limit to its proper functioning, amplifying as per Chevalier (2014, p. 168) reactions and tensions between internal stakeholders. The work of Mahé de Boislandelle (1993, 1996) shows the centrality of the manager in the specificity of SME management and highlights another effect, which is the magnification effect caused by the small size of the firm which is a microcosm, a world of small-scale work in which the effects are exacerbated. If decisions are taken faster thanks to the limited number of intermediaries and conflict management is done directly for the same reasons, conflict also breaks out more quickly and more openly, without the filter of a relatively horizontal managerial structure. According to Mahé de Boislandelle (2015, p. 376), the magnification effect is the result of a combination of objective and subjective factors and "consists in a manager considering as strategic all the actions to be carried out insofar as the horizons of calculation as well as the degrees of importance merge in his mind. This "strategic thinking", which sometimes leads to a kind of loss of perspective, can therefore have an impact on the decision-making process.

1.3 Changes in capital structure and the arrival of the shareholder: a major change in SMEs

Change is not trivial in SMEs, not that it is trivial in large companies, however the structure of the organization means that the force of change is felt more strongly by the members of the organization than it might be in an organization that would be of a sufficiently critical size to

absorb its impact. And yet the growth and development of the company must go through a phase of change, which in this case takes the form of an opening of the company's capital and a merger project. Mintzberg (1982) echoes Starbuck (1965) who refers to "models of metamorphosis" in which growth is conceived not as "a continuous process that takes place smoothly" but as a process "marked by abrupt and continuous changes" in the structures of organizations. The notion of strong proximity in an SME is disrupted by the arrival of a shareholder, especially a majority shareholder who is active in its management, but also by a merger project. If proximity can present a competitive advantage with respect to large companies when it manifests itself in the form of reactivity and adaptability to customer demands and market evolution, in a context of strong organizational change, it can present a threat to the proper execution of a restructuring policy insofar as the pre-existing distribution of powers will be modified, upsetting the established hierarchical codes. The SME then finds itself at the crossroads between management practices specific to its particular characteristics and new practices that take into account a new actor, undermining the unique power of the manager by subjecting him/her to the pressures of new external sources of control. Therefore a shift in the strategic top and in the distribution of power happens. To understand the change in the distribution of power induced by the arrival of a new *stakeholder in the company*, we can rely on Mintzberg's (1983, p.113) illustration that introduces the concepts of internal and external coalition. Thus, the manager (here referred to as the *Chief Executive Officer* or *CEO*) is at the head of the internal hierarchical summit or, in other words, the "internal coalition", whereas an external coalition is formed in the presence of the shareholder(s) with centralized power in the hands of the (here *Board*) of Directors. This is then a new factor of external influence which will clearly influence the spectrum of power of the leader and his/her decision-making room for manoeuvre and make him/her responsible for translating the expectations of the external coalition actors into internal strategy. Paradoxically, while

proximity - proximity to the market, proximity to customers, but also proximity to the players in the company - can be an internal contingency factor that favours change, and in itself guarantees the company's ability to bounce back and adapt, it can also present certain limits. In an oral culture based on trust and informal exchanges, specific to the proximity found in SMEs, this same proximity can become a source of resistance to change when this change involves an organizational modification and in particular a formalization of exchanges, transmission of information and controls necessary for the new actor in the external coalition to exercise his power, in this case the new shareholder(s).

2. THE SHAREHOLDER-MANAGER RELATIONSHIP IN AN INTERCULTURAL CONTEXT

2.1 Corporate governance in the light of agency theory

Now that the milestones of the environment studied have been set, we will turn our attention to the concept of governance. Indeed, where in the first part we referred to the operating mode in SMEs or its coordination mechanisms, the opening up of the company's capital and the arrival of a new actor in the person of the shareholder raises questions about the modalities of the new management-shareholder relationship. It is important at this stage to specify that it is the majority shareholder that interests us insofar as a minority stake would induce a less active involvement in the management and governance of the firm. In the case of majority shareholdings, investors will indeed position themselves as active internal players and will endeavour to review the operating mode prior to the investment transaction in order to set up a new, optimum and efficient operating mode, conducive to the profitability of their investment. This involves setting up control mechanisms to regulate both the activities of the management team and ensure formalized and regular sharing of information, contrary to the procedures specific to SMEs. Thus we refer to the principles of corporate governance, defined by Charreaux (2012) as "the set of organizational mechanisms that have the effect of

delimiting the powers and influencing the decisions of managers, in other words that govern their conduct and define their discretionary space". Indeed, the transition from family capitalism to managerial capitalism, with the differentiation between the owner and the manager of the firm based on a new model of regulation and control of firms, has raised questions about the need to clarify the modalities of this control. Following this differentiation, the majority of shareholder-owned firms today call upon salaried managers to run them, which raises questions about the interests of these two groups of actors in the organization and about the modalities of the relationship between the two. In the light of agency theory (Jensen and Meckling, 1976), we have here a contractual relationship between two parties, on the one hand the shareholder or "principal", and on the other hand the manager or "agent" mandated by the principal to manage the firm in his or her best interests. Therefore the question of interests arises. Indeed, the agency theory is based on the "cost" dimension of the contractual relationship between principal and agent, that is to say, the costs of supervision borne by the shareholder vis-à-vis the manager in order to ensure that the latter acts in his best interests while limiting the risk of opportunism, and the costs of obligation borne by the manager in order to give the shareholder confidence and guarantee the proper execution of the incumbent responsibilities and possible compensation in the event of non-execution, and finally the residual costs to be borne by the shareholder in the event of a divergence of interest following, for example, an unprofitable. This then raises the point of asymmetry of information, between a shareholder who cannot master or know all the subtleties of the execution of the contract on the part of the manager, and a manager who, favoured by his central presence in the firm, has the privilege of accessing financial, legal, technical or other information that he may wish - for his personal interest - to conceal from the shareholder. The balance between the manager's interests, which, if privileged, can jeopardize the financial situation and competitiveness of the company, and those of the

manager, focused on profitability, are at the heart of governance issues, which can take different forms. Stévenot (2006) thus highlights the protean dimension of governance, depending on whether it is disciplinary and focused on "the study of the distribution of the wealth created" or cognitive and based on a logic of cooperation between the manager and a shareholder that, beyond its financial contribution, contributes to the creation of value for the firm by bringing cognitive resources such as know-how, skills or network. However, this approach can be put into perspective with regard to the life cycle of the firm (Sapienza, 1992), i.e. the shareholder's contribution and the exchanges with the managers will be conditioned by contextual contingency factors, the modalities of exchange being organized differently according to whether they take place in a context of firm creation, expansion or even merger. Thus, when organizational complexity increases, agency costs through an increased need for control mechanisms also increase (Fama and Jensen, 1983). As for the socio-cognitive complexity of the firm, a source of conflict and incomprehension, only trust, respect for procedural and interactional justice, transparency and respect for initial discourse and for the autonomy pact, make it possible to return to the foundations of cooperation (Stévenot, 2006). Paradoxically, despite the need to formalize control mechanisms in order to ensure effective corporate governance in the shareholder's sense, it would seem that direct, frequent and informal relations - and we find here typical properties of the SME - not only allow the investor better control but also promote productive collaboration and the regulation of cognitive conflicts (Stévenot, 2006). The management-shareholder relationship is thus a very contingent relationship, subject to the pressures of the firm's internal context, taking a conflictual turn in the event of financial difficulties (Stévenot, 2006), with a reinforcement of control mechanisms on the part of the shareholder, or even in extreme cases a total exclusion of the manager, thus moving from a cognitive logic to a shareholder logic, or even a disciplinary one. It is also interesting to note that Charreaux (1999) establishes a relationship

between organizational complexity and the decision-making process, stressing that in a large complex organization specific knowledge is diffuse and therefore decision-making rights are delegated to the agents who hold the information and knowledge, which echoes the work on SMEs, which on the contrary underlines for small organizations the strong centralization of power. Other internal contingency factors are also taken into account, including the intercultural dimension, which is of particular interest to us, and can provide as many keys to understanding the mechanisms underlying the management-shareholder relationship. Referring to Coleman's (1994, p. 167) diagram cited by Charreaux (1999), governance mechanisms could be explained in the light of the rational approach to organizations and the study of the types of relationships at the micro level - actors - and at the macro level - organizations or systems. The individuals at the heart of corporate governance, managers and shareholders, act and make decisions in a rational manner according to the objectives pursued. However, it seems difficult in a cross-cultural context to hide the fact that previous elements such as their culture and origin may not influence their actions. Therefore, we can wonder about the consequences of the rise of private equity and the internationalization of shareholding on the methods of application of corporate governance, at the crossroads of cultures.

2.2 VOC approach: influence of shareholder origin

The issue of corporate governance is at the heart of the Varieties of Capitalism (VoC) approach (Hall and Soskice, 2001, 2002) for various reasons. Albert (1991) identified two antagonistic forms of capitalism cohabiting in the economic sphere, the "neo-American" model and the "Rhineland" or European model, respectively qualified according to Hall and Soskice (2001) as liberal market economy (LME) and coordinated market economy (CME), one being typically represented by the United States and the other by Germany. The two

standard ideals are differentiated by the logic of coordination between their different economic actors and by a search for short versus long term profit. This will be manifested, among others, by a flexible use of human capital for LMEs and a strong protection of shareholders or, on the contrary, a greater protection of employment and employees for CMEs (Guery, 2017; Goergen et al., 2012; Hall and Soskice, 2001; Wood and Lane, 2011), influencing decisions in this area. The decision-making process and power will be unilateral with a strong concentration in the hands of the LME manager, whereas decisions in CMEs, including those concerning the firm's restructuring strategy, will be based on the structure of the firm, insofar as it imposes more consensual forms of decision-making processes, which allows firms to build reputations that are not totally dependent on that of their managers (Hall and Soskice, 2001). This is the case, for example, in Germany, where all major decisions require an agreement with supervisory bodies that include representatives of employees and the main shareholders, as well as in Luxembourg, where the extended rights of employee delegation since the 2015 social reform make it a consultative or decision-making body. Thus the sharing and control of information will also be subject to the influence of the institutional context, as the consensus-based decision-making process in CME encourages a wider sharing of information and the development of reputations in the networks in order to obtain reliable information, making the networks in this type of economy a fully-fledged control body reinforced by the presence of employers' associations with their own expertise. This also constitutes a source of information for investors, who will take into account this context of very dense networks to access information normally qualified as private and thus control the performance of companies, which in this case will not depend solely on profitability criteria derived from annual balance sheets (Hall and Soskice, 2002). Although Luxembourg is one of the founding countries of the European Union, it cannot be considered as a single cultural space and has so far escaped any attempt to classify it in one or the other type of economy

(Graf and Gardin, 2018), which can be explained by its permeability to transfers of practices from border countries such as Germany, France and Belgium. Thus, while it may seem obvious that managerial behaviors will be influenced by their belonging to one or the other type of economy, we might wonder to what extent the encounter of relatively opposite types of economies in their practices, whether in the institutional environment of the firm, the manager-shareholder binomial or in the firm's management team, might not lead to a break in corporate governance or even jeopardize the value creation initially targeted by both private equity financing and merger operations.

2.3 Cross-cultural management of the merger

As globalization is accelerating the process of diversification of investors' origins, the intercultural dimension of the management-shareholder relationship, especially in a merger context managed by a multicultural management team in an international environment, raises the question of the influence of cultural forces on the project but also of the articulation of intercultural management in such a context. If we consider the loss of independence and power of the manager in favour of the shareholder in the establishment of their new relationship, this can generate a phenomenon of reactance conducive to conflict, of resistance to authority (Stévenot and Guery, 2006), which will manifest itself more or less strongly depending on whether or not the managers identify themselves with the same group as the shareholder, particularly national or cultural groups. French managers, for example, would demonstrate a stronger reactance (Stévenot, 2006). However, underlying the concept of governance is the concept of power, which according to Mintzberg (2003, p.35) "does not seem to present any difficulty for the average person. They know what it means to "have power" and instinctively recognize those who have it. "This is all the more the case when the organizational environment explicitly advocates the recognition of power through a strong

hierarchical organization or when the exercise of power is exacerbated by a merger situation. The acceptance of power or hierarchy may then vary from one culture to another. Thus the culturalist approach of which Hofstede happens to be one of the precursors would make it possible to explain individual behaviours and institutions as the simple product of national principles or values. Hofstede, through the establishment of comparative cultural grids in his first work in 1980, highlights the differences in national cultural value systems and identifies four dimensions of culture, which are the hierarchical importance or the perception that the collaborator has of power and the degree of acceptance of authority, the individualistic orientation with the acceptance of conflict as a mode of conflict regulation or community based on relationships of trust and the search for consensus, the relationship to uncertainty and ambiguity, or the degree of masculine values, i.e. oriented towards a culture of results, or feminine values based on self-help and the social. Subsequently, these dimensions were completed by a fifth dimension of short-term versus long-term (Hofstede & Bond, 1988) and a sixth dimension relating to the degree of indulgence (Hofstede, Hofstede & Minkov, 2010). While critics of the approach may have pointed out the limits of the study's temporality, its specific organizational context and its methodology, the literature on M&A is in most cases based on one or the other dimension and recognizes in all cases the importance of the cultural variable on the success of a merger project (Gunkel et al., 2015; Stahl & Voigt, 2005; Rottig et al., 2013). In view of the organizational and personal uncertainty generated by a merger situation, one can easily link the meaning given to the cultural dimension of uncertainty, which will provide a key to explaining the variability of the reactions of the collaborators involved in the project. The same applies to the emotional effects generated by the merger, which will vary according to the short-term dimension, as long-term cultures according to Hofstede (2001) demonstrate greater adaptability and long-term vision as well as less emotionality that would make them react more positively to a merger situation than short-

term cultures. The point here is not so much to list the different aspects and approaches to culture as to argue that culture is an important variable not to be overlooked for the success of a merger project. Insofar as studies have shown the high failure rate of mergers (Buckley and Ghauri, 2002; Demeure, 2000), with Meier and Schier (2012) estimating it at 50% and Kipping at 66%, and considering that cultural differences considerably complicate the process of integrating transnational operations (Blazejewski and Dorow, 2003; Quah and Young, 2005), it is a variable in the merger project that is certainly worthy of attention.

3. METHODOLOGY

3.1 Choice of a case study

In order to understand the phenomena studied and characterize the dynamics of the roles played by the different actors, we have chosen a qualitative case study methodology. This approach is used to apprehend the representations of the actors in a specific context. We attempt to observe here, on the one hand, "the similarities and differences between members and firms belonging to different national universes" (Smith et al, 1989; Yousfi, 2019) and, on the other hand, "the interaction of different cultures at work" (Jackson and Ruderman, 1995; Ozbilgin, 2002; Yousfi, 2019). To address our problematic, semi-directive interviews were chosen in order to collect the perceptions of the actors in a given context and to gather rich and varied data that offer a powerful explanation of processes (Miles and Huberman, 2005). The interviews lasted one hour and were conducted, to start with, with four members of the company's management team, which we will refer to as **Company 1**. The second company with which Company 1 is merging is named **Company 2**. "Qualitative research presupposes that we see actors thinking, talking, acting and interacting, cooperating and confronting each other" (Dumez, 2010). To do this, we chose to meet the interviewees in their workplace when possible, with one of the respondents being in the United Kingdom. This approach is carried

out with the aim of observing behaviours or interactions characteristic of the dynamics of the roles played by the actors. During these interviews we were careful not to ask questions directly about the cultural issue in order to avoid that "respondents are not tempted to reproduce cultural stereotypes or use politically correct vocabulary when talking about foreigners" (Yousfi 2019). The objective of these interviews was to develop an exchange and to obtain spontaneous developments from the different actors interviewed. Our approach aims to be interpretativist and proposes an analysis of the discourse of the actors whose repetition of expressions, metaphors or the identification of certain perceptions during specific situations can help us identify certain cultural mechanisms. This posture can allow us to understand the meaning given by the actors to the situation in which they find themselves, their interpretations and feelings, and to apprehend a reality constructed from the meaning that the actors involved give it.

The limitations of this approach concern the data collection that was done for 3 interviews in English and one interview in French. However, "All words are spoken to signify, so they convey precise content in the language in which they are spoken" (Mejri, 2003; Yousfi, 2019). The logic of translating exchanges shows that "it is difficult to restore all the richness of meaning conveyed by certain expressions in the original language" (Yousfi, 2019). A full transcription was made for each interview and a thematic content analysis was carried out for each case. Our results are based on the verbatim that we have retained and that we present in the following section. As this study is ongoing, we would like to obtain with the next interviews sufficient data to carry out a thematic content analysis using NVIVO software.

3.2 Context and presentation of the case study

The context of the interviews conducted for our case study applies to the merger of a private equity-backed company in Luxembourg. This field remains little explored and presents a very

interesting regional, national and international environment. It is a country that is not the subject of studies in this field in view of its small size and the difficulty of making comparisons with other countries, particularly European ones. The opportunity to establish a qualitative study in this "specific" context and in the context of a merger can be a contribution in terms of management and corporate governance.

We learned about this merger project through contacts who knew our respective research fields. We took the opportunity to approach and solicit various interviews with the management team of this SME. In these particular circumstances for the managers, the interviews had to be scheduled a week in advance and sometimes were moved at the last minute, which was the case for the group HR director. A total of 4 interviews were conducted in January and February 2020 with an English *executive director* (deputy group executive director), an American *head of operations* (deputy general manager), a Dutch human resources director (HRD) and a French *head of Luxembourg and Netherlands* (general manager).

These interviews took place in a particular context of intense stress related to the merger and due to this context, they have reduced to four instead of the ten initially targeted. Further interviews will therefore need to be organized and conducted. The interviews were conducive to confidence, sometimes with a feeling of release and deliverance on the part of the respondents.

4. LESSONS FROM THE CASE STUDY: A REVEALING FUSION OF CROSS-CULTURAL DIFFERENCES AND ACCELERATING GOVERNANCE PRACTICES.

The geographical characteristics and areas of expertise of companies located in Luxembourg highlight a concentration of diversity of actors. The primary origin of this interculturality is identified as the phenomenon of "cross-border workers" from the greater region (France,

Germany, Belgium, the Netherlands). This link between economic dynamism and cross-border workers mainly from the financial sector has been the subject of several studies in the existing literature (Damette, Fromentin and Salesina, 2018; Fromentin and Tadjeddine, 2020). However, other nationalities should not be overlooked, which can enrich the multicultural dimension of a company and in particular the relationship between investor(s) and the company financed. Few studies focus on the cross-cultural effects on corporate governance in the context of a private equity-financed merger in an international context. Therefore, we propose through the mobilization of conceptual frameworks and our thematic content analysis to understand how divergent expectations related to corporate performance can be a source of conflict (3.1). We will identify how cross-cultural exchanges or interactions about merger are a tool for conflict regulation (3.2). Finally, we will attempt to understand the phenomenon of merger as an accelerator of good governance practices (3.3).

4.1 Different performance expectations, a source of conflict.

The analysis of the results shows that the discourse of the Private Equity firm (PE) concerning the merger is perceived differently according to the actors. These disparities seem to stem both from the conditions of interculturality of the project and the multiculturalism of the management team. First of all, the Franco-Dutch managers have a "technical" perception of the project and a vision centered on human resources. *"We are continuing the dashboards but currently the objective is mainly the IT and human integration of the teams of the two companies; this must form a symbiosis, I think this is the priority [...] while on the UK side it's very political and cultural differences show that unfortunately there is more and more corporate policy that implies that we have to pay more attention to what's happening behind our backs rather than driving the business" (D1).*

The Anglo-Saxon management team shows a stronger adherence to the PE discourse and merger project. This is mainly due to the recognition of the financial performance of this stage. *"The merger is a project that can bring the company in line with the shareholder's choices and decisions. This is how the company will perform better! Our role is to make money and to make our company work for that! "» (D3).*

Expectations in terms of financial performance are a marker of these cultural differences in the investor-manager relationship and within the management team: *"controls by financial dashboards must be accentuated at a time when the company's financial performance must improve, then the merger project will be viable" (D4).* *"The objective of this merger is to allow company 1 and 2 to become references and unavoidable and for that we need more customers, more business, I just want to say that we need more business so more money, that's the goal" (D3).*

This dissension reveals internal conflicts in the management team as to the adequacy of the project management and the shareholder's choices. This situation also demonstrates a questioning of the distribution of powers in the management team. *"For the past four months we have been pursuing our software development and IT integration efforts to the detriment of our financial performance, which is currently poor. I myself had to go and check out what these consulting teams were doing, as their progress was very limited. And I fired some of them because they didn't want to show me their progress. The result is that we haven't made any progress on IT integration with Enterprise 2 and we haven't focused on what's essential, which is getting results with our customers, there's a real lack of leadership, insufficient controls from other members of the management team" (D3).* **"What I expect from this merger? is that some of the people on the management team will be replaced, then we can implement the project as it should be done from the beginning and following the shareholders'**

schedule" (D3). This last remark demonstrates a vision and expectations in terms of job flexibilisation which are both specific to a merger context and to LME origins.

We can also observe a phenomenon of reactance on the part of the non-Anglo-Saxon management team which underlines different cultural representations of authority and hierarchy. *"Controls are necessary but more controls at this time of the year only increase the stress of the teams, some want to leave because of the merger and one feels the disagreements increasing in the management team. The pressure that this merger imposes on everyone is not good, I don't think that we are doing it in the right way, to respect financial logic and the principle of merger, some people in duplicate will have to be fired and that everyone knows, for some employees it is difficult to give their all" (D2). "To have a PE fund investing in our project is great, all the more so because if it is a majority, you can feel it breathing down your neck, if it is a majority is that it is a majority [...] but on the other hand it is no longer a strategy that is long term because the investment fund enters but when it enters it already knows when it exits and therefore it takes it into account in its strategy and unfortunately what happens is the focus or the cursor is much too focused on financial performance and exit and not enough on-customer quality and on the business engine which is the people behind it and it gives me the impression that we are a line of investment in an investment fund [...] we are only a line and we don't actually see what's in it, They don't realize that they are only waiting for the return on investment and they don't care about the customers, which has an impact on the corporate culture and creates a lot of pressure for everyone with a big staff turnover unfortunately, we set up company 1 with a staff evaluation every 3 or 6 months, I set up a culture where I took the time with my N-Is without talking about performance, just the well-being of the employee and the managers could do the same, that's our group, I hope that this culture will remain " (D1).*

In this merger case for Company 1, this project also presents a divergence of dynamics between manager and investor exacerbated in a context of globalization of the firm. *"What can give an asset in the globalization of our sme is when we keep a political aspect [...] but the limit of the exercise is when our vision of the financial performance of the company is not the same, the pressure behind is in this case stronger, it is also a whole political side that there is around in the merger stage where this globalization removes our focus from our business to think about the situation of over lap and duplicates, we are necessarily less concentrated when we can lose our place"* (D1).

4.2 Exchange of cultural practices on the merger project: a tool for conflict regulation

The specific situation of Company 1 in an extremely contingent context seems to indicate that the SME retains tools, means or exchange practices that make it possible to overcome situations of disagreement and conflict *" There is sometimes an ultimate level of pressure and disagreement on both sides regarding this merger, I mean the investors and the management teams ... and the staff, but we manage to mobilize the staff around the transformation project around internal and external collective exchange practices and even better than that, we manage to organize meetings with the teams and individuals, counting on the support of the staff delegation, explaining my strategy each time, from the moment we explain what we want to do, what we are going to do, why we want to do it there is a total commitment of the management team and the staff in this project and this seems normal to me and we eliminate disagreements in this way"* (D1).

In this situation where internal and external influences can present the company with many challenges, cultural differences are sometimes seen as a useful resource for the company. The confrontation of divergent perceptions can be a practice that allows leaders to be open to other perspectives, thus limiting conflicts. *"Even if cultural differences prove to be an additional*

challenge, we manage these differences by multiplying exchanges and I would say that it is even interesting because in this way we obtain new perspectives that we had not previously considered and we can consider this as an enriching contribution and this is how we move forward" (D1).

The repeated exchanges between the two SMEs seem to indicate that certain technical solutions, practices or resources held by company 2 could be perceived by part of the management team as an element of conflict resolution *"I'm only waiting for one thing: the merger is taking place very quickly now, we have so much to learn from the other company, their practices, their software, their ways of organizing their meetings, their processes with all that we will have many subjects of disagreement that will no longer be necessary" (D3).* **This** view is aligned with that of the shareholder, who sees the merger from the point of view of profitability and efficiency, both financial, organizational and cognitive.

4.3 Accelerating the merging of good governance practices.

The context of a merger within a SME shows that certain choices and governance practices can be accelerated *" With this merger the choice has been made to automate and robotize, this has a certain interesting impact for the profitability of the company and the fact of outsourcing these tasks to concentrate our staff on high value-added tasks allows to limit staff turnover and at the same time to increase the profitability of the company and in these practices that I consider as both HR and governance practices in the end everyone is in the same boat " (D1).* Moreover, refocusing on the core of profitable and value-added activities for the company and the investor in order to ultimately optimize resources and human capital is once again a choice in line with the strategies of private equity firms which will be influenced by the origins of the latter.

The multicultural context can have a positive influence on the choice and implementation of decision-making processes *" Currently we have a board of directors group where we have 5*

board members and we have an ex co group where there are a dozen of us and then we have a governance by country and this merger project and all these members registered in the project, and this composition of the different members helps us a lot in our choices and our governance " (D1).

This project can accelerate the implementation of new control mechanisms to guarantee the company's financial performance *"I know that our board is already asking us to look more and implement new tools with regard to our EBITDA and also because we are going to get bigger and bigger and we need to change all of our dashboards quickly in order to have consistent observation tools for both companies and this needs to be done very quickly" (D2).*

Control is also, depending on the way it is exercised, a governance mechanism that will have to be understood according to the cultural origin of the person exercising it.

CONCLUSION

Our article proposes a case study of a merger of a Luxembourg company financed by an Anglo-Saxon private equity firm. The originality of this study is linked to the geographical and multicultural environment of Luxembourg and to the merger context. To this end, we mobilize different conceptual frameworks to try to highlight the importance of the effects of this merger on corporate governance. We conducted semi-directive interviews with four members of the management team, which allowed us to identify different performance expectations and sources of conflict due to cultural differences. We also observe that the merger is in this context an accelerator of good governance practices. This analysis can therefore be a contribution in terms of management and corporate governance. The limits of this study are severalfold. First of all, the context and the temporality of our study, although they enhance its interest, also represent its limitations. The imminence of the merger Day One and the announcements of the new hierarchical structure have exacerbated the tension specific to this type of situation, which has led to the rescheduling or even cancellation of interviews that and increasing pressure, especially since our respondents were all in management. We later learned that the interview with the Group Human Resources Director was cancelled because he was made redundant on the very afternoon when the interview was to take place. Due to a snowball effect, the interview with his deputy director, who was upset by the events, was itself cancelled and was never rescheduled. These factors affected the number of interviews initially planned, which in itself was indicative of the rich context of our study. Another limitation, also related to temporality, is the study of the "immediate aftermath", i.e. the part of the post-merger study that we had planned to cover. The days and weeks following the first official post-merger day saw a precipitous increase in the number of Coronavirus cases and the first border closures in Luxembourg, which, it should be remembered, borders France, Germany and Belgium, where more than half of the company's employees come from.

During this same period, the company had to deal with the management of both its merger and a crisis situation that forced it to organize the continuity of its operations remotely, through the widespread teleworking of both its management and employees. Although this exceptional situation represented a new limit for our study, it opens the way to a unique subsequent opportunity to study the remote operationalization and integration of a company merger in a Covid 19 containment context and to compare them with standard remote management practices, also called "remote management" in the Anglo-Saxon context of the study. Another research opening would be to focus not on the internal post-merger follow-up of the study, but on the contrary on the communication and exit process of the managers who were ousted during the implementation phase of the managerial structure, taking into account the influence of the intercultural forces at work.

† France Invest, formerly AFIC, is the Association of Investors for Growth.

ii These Small and Medium Enterprises defined by article 51 of the law n°2008-776 of August 4, 2008 on the modernization of the economy (LME), as [enterprises] excluding microenterprises with a workforce between 10 and 250 employees.

iii <https://www.toutteleurope.eu/actualite/les-entreprises-dans-l-union-europeenne.html>

iv Source: "Alternatives in 2023" statistical activity study published in 2018 by Invest Europe.

v Source: https://www.lemonde.fr/economie/article/2018/12/25/2018-annee-fertile-pour-les-fusions-acquisitions-dans-le-monde_5402065_3234.html

vi Source: Commission de Surveillance du Secteur Financier (CSSF) of Luxembourg

vii Source: "Luxembourg and its multicultural population", *The official portal of the Grand Duchy of Luxembourg*, <http://www.luxembourg.public.lu/fr/le-grand-duche-se-presente/luxembourg-tour-horizon/population-et-multiculturalite/>

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ⁱⁱ These Small and Medium Enterprises defined by article 51 of the law n°2008-776 of August 4, 2008 on the modernization of the economy (LME), as [enterprises] excluding microenterprises with a workforce between 10 and 250 employees.

ⁱⁱⁱ <https://www.touteurope.eu/actualite/les-entreprises-dans-l-union-europeenne.html>

^{iv} Source: "Alternatives in 2023" statistical activity study published in 2018 by Invest Europe.

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^{vi} Source: Commission de Surveillance du Secteur Financier (CSSF) of Luxembourg

^{vii} Source: "Luxembourg and its multicultural population", *The official portal of the Grand Duchy of Luxembourg*, <http://www.luxembourg.public.lu/fr/le-grand-duche-se-presente/luxembourg-tour-horizon/population-et-multiculturalite/>