A REVIEW OF ORGANIZATIONAL CULTURE IN THE MERGERS & ACQUISITIONS PROCESS

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ABSTRACT
Mergers and acquisitions (M&A) are the most widespread and most reliable international operations in the strategic market. Theoretically, they can respond to a certain amount of conventional goals like creating intrinsic value and performance. Integrating an organizational culture in an M&A process can help top management from both organizations understand cultural differences as fast as possible, in order to reduce consequences. The question remains as to whether we can go from a theoretical case to a practical one and achieve results beyond expectations. In this 2015 study we took into account cultural changes, communicated them to the members going into the process, and demonstrated the fundamental role that organizational culture plays. By comparing several approaches surrounding organizational culture, we conclude that this concept should extended to further perspectives, such as the importance of acculturation, cultural tolerance and organizational identity, all present before, during, and after the M&A process.

Keywords: organizational culture, mergers and acquisitions, identity, integration.

INTRODUCTION
According to Mergers and Acquisitions (M&As) reports, carried out these last two years by McDermid (2014) and Rogers (2015), Thomson Reuters financial advisors, both 2014 and 2015 were beneficial for the market. Since 2007, these operations have seen an increase of 47% on a global scale. Powered by a renewed offer of more than $5 billion, the global value of M&As was estimated at $ 4.7 trillion in 2015 against $3.5 trillion, which means an increase of 42%. In Europe, there was $869.8 billion over the entire year of 2014, which is 55% more over the level of activity in 2013. The United States & Pacific Asia’s operations both combine 74% of 2015’s global activity as they respectfully targeted $2.3 trillion and $1.0 trillion, respectively. With $716.2 billion in transactions announced in 2014, Asia Pacific recorded the highest annual period for many decisions in the region since 1980. And when it comes to cross-borders M&As,
that sector has grown so much, they accounted $1.6 trillion, which means an increase of 27%, and the activity keeps increasing, representing 37% of the global activity since 2014.

Mergers and acquisitions (M&As) are indeed reliable and widespread international operations because in theory they respond to a lot of conventional goals, such as looking for economies of scale and scope, maximizing the prestige of the purchasing company’s leader, reducing competition, misdirecting the undervalue from the stock market, and so on. But one problem remains, if this process considers cultural changes and differences. It also remains unclear what is the role played by organizational culture inside organizations entering the process. We then address these questions:

- How does the firm adapt its culture, as part of a merger & acquisition?
- How is organizational culture formed within the integrated substructure?
- What are the cultural challenges that both parties have to face?
- Can organizational culture be a strategic asset for the firm?

Organizational culture has a diagram of the principles or basic assumptions that a given group has created, discovered, or developed on how to deal with problems related to adaptation in the external environment and internal integration, and it proved it all to be effective enough. Therefore, a correct way can be taught to new members to perceive, think, and feel changes going on in the company. This research aims to make an inventory of organizational culture’s and integration strategy’s concepts, to point out the choices for an organization going into this process, and to determine what it brings to the culture. It addresses the role of organizational culture during the pre-phase, in-phase, and post-phase; that means how exactly it is supposed to be and what are the impacts of a culture not effectively managed during the pre-phase and post-phase process.

Organizational Culture as a System of Values or a Management Tool?

In 1871, the British anthropologist Edward Tylor proposed the first scientific definition of this complex object that is called culture. "...that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society" (1871, p. 1). In this descriptive and objective approach, culture is the expression of the entire human society and defines a set of specific elements that explain the basics of operating an organizational entity. It combines different cultural materials, beliefs, and convictions from our own characteristics. These beliefs and convictions depart from national culture, and therefore, form a set of values, myths, rituals and taboos shared in their personal environment and between employees.

Although there is some confusion about the use of organizational culture regarding corporate and company culture, the gap in management sciences on the definition of an organizational culture is substantial, and can be compared in two major research works: one from Edgar Schein and the other from Linda Smircich. Smircich provides a much more objective understanding based on the idea that a company has a culture or is a culture (1983). The works of Schein on organizational culture (2006) remain in cognitive and subjective dimensions.

According to Smircich, there are two main ways in which culture has been studied in organizations: as a variable and as a root metaphor. The culture as a variable approach focuses on causality. Culture is thought to be able to predict and cause certain outcomes, while the metaphor approach focuses on understanding how
members create their common culture and how it affects who is part of it. Schein defines organizational culture as a basic structure of values shared by a group who invented them, discovered or developed in learning to overcome problems of external adaptation or internal integration. Values that have worked well enough to be considered organizational are taught to new members of groups as the way to perceive, think, and feel the problems to solve.

In his design of research, Schein distinguished three levels in culture: visible artefacts, beliefs and values, and unconscious principles.

Visible artefacts are processed in management and organizational structures. They are the company's products, environment and architecture; technical and available offices; methods of visible or audible behaviour; and public records such as statutes, plans, and items of employee career stories. They are easy to see but very difficult to decipher. It is especially dangerous to try to deduce the deepest assumptions artefacts because these interpretations will inevitably be projections of our own feelings and reactions.

To understand the behaviour of our members, we must identify the second level of culture which are beliefs and values learned in a group, that is to say, strategies, objectives of the organization, and its general vision. They come within the meaning of being and the difference with others and can change depending on the environment. These values are mostly manifested through unexplained unconscious principles, acquired by the member during his life.

Principles, in the third level, are what different anthropologists’ lines of mainstream values tend to reflect on the choice among several basic alternatives for a member during organizational situations. These alternatives are still visible in the culture, and any member may, from time to time, act in accordance with the variant of the dominant orientations. Schein (1991) distinguishes these unconscious principles such as relationship with the environment, nature of reality and truth, human nature, and activity.

Organizational culture is distinguished in the company under two scenarios: Either, it is an internal and independent characteristic of the organization, thus it should be considered alongside other organizational features of a business, such as production management, supply chain, or logistics. Or, in the second case, the company is a human society and metaphorically, a culture, homogeneous block-with representations, behaviours, values, and standards within—that forms a matrix that develops the personality of the employee.

Smircich’s work leads us to understand that culture can take shape in many conceptual variables depending on the different dimensions of the organization: an independent variable in the comparative management; an internal variable in the strategic culture; or a metaphorical source in the design of a company both cognitive, symbolic, structural, and psychodynamic. There are several sources contributing to the development of an organizational culture. The challenges of creating one are mostly to ensure coherence and survival of the organization as a group, to emerge and integrate a set of specific knowledge to the company, to create strategic resources that allow the increase of performance and its unique human capital, and to create a specific identity for the community in order to strengthen relations between members.

Another way to understand organizational culture is by through the evolutionary theory espoused by Nelson and Winter (1982). As individuals have routines of their
own, they follow a process of transformation into skills and knowledge, according to the different environments in which they live. The learning company centralizes disparate and individual knowledge in order to create a homogeneous, concentrated, and shared knowledge that can respond to the company's needs. Within the company shared knowledge is thus knowledge of the organizational office. It is the interaction with individuals' norms, meanings, and values, dimensions that are both tacit and explicit (Nonaka & Takeuchi, 1997). By putting all members in the same boat, the logical task after this process should mobilize the objectives and the means in accordance with the values of the team. This issue is generally set by the leaders of the organization, who are committed to establish corporate ethics. The stated objective is to find the core values shared by the company members, then observe the sources of tensions, particularly between the subcultures (professional, hierarchical, etc.) to finally put in place the means to erase what does not work.

Implementing culture also suggests the learning process of routinization or change in the long term. For Godelier (2009), issuing the institutional policies and thinking of the company members poses the biggest challenge for leaders. In some organizations, increasing investment in the training of new recruits is mostly focused on learning specific values and representations. Through "seminars," leaders can explain what they expect from their employees in terms of how they should operate, codes and ways of working (communication, clothing, etc.), and appear symbolically as their hero (Lemaitre, 1984). Every organization has a culture akin to locked objectives, roles, processes, values, practices, attitudes, and assumptions that fit together as a mutual and reinforced system in which elements combine to prevent any attempt of change at the organizational, team, or individual level. Those changes connect individual beliefs to organizational results, require a planned and disciplined implementation, and use leaders as learning leads in order to succeed in strengthening the cultural change.

By targeting different levels of change, increasing the role of beliefs and values, and using leadership as the chief intermediary to show how to model and reinforce the desired changes, the influence of the organization creates a fundamental and lasting cultural level (Heckelman, Unger, & Garofano, 2013). These efforts to develop and adapt the organization into a new corporate culture ensure an organizational alignment which also maintains a culture that promotes high levels of performance in the organization (Denison, 2011). It must be understood that organizational culture is rooted in two paradigms that should not be ignored: a purely cognitive paradigm and an operational paradigm. These two aspects are not manageable for companies because the dimensions of this concept are inexplicable (i.e. artefacts and unconscious principles). The objective of leaders will therefore be to master visible aspects (beliefs) and shape them to provide an identity to the entity.

**Why Choose M&A as a Strategy**

Integration describes modes of ownership and the various stages of supply, production and distribution on a type of particular goods or services controlled by an organization. The well-known integration strategies are mergers, acquisitions, and diversifications of activities. In integration, leaders face recurrent challenges: one on maintaining the willingness from employees to cooperate and the other on maintaining the balance between the needs and capacities of a country and the demands from the external environment (Raynal & Ferguson, 2009).
Accepting changes in organizations (companies, public institutions, and networks), appears as voluntary actions of the staff members (managers and employees) to improve operations of certain services, departments, and entities. These actions most often are in need of improvement in the case of increasing productivity, technological acceptance, staff motivation, intensified innovation, and increasing market share. Within a company, when strategy changes the performance of the organization, it modifies either the content (objectives, appreciation of the environment, and the nature and availability of resources), or the process (structure, systems, culture, and values). These modifications depend on the scale, the culture, the type, the depth, the scope, the speed, or the environmental conditions. They can be associated with incremental evolution or radical transformation. Moreover, performance and survival of a company depend on the ability of the company to go through adaptation, evolution, revolution, or reconstruction.

Another source that determines integration strategy is when the company may decide to make more of its production, supply, and distribution network. The goal is to take over activities previously carried out by other organizations. It will consolidate, often through acquisition of competitive businesses, organizations that produce similar products (at the same level of output) to achieve economies of scale and have a strong position (bargaining power) through relations with suppliers and customers distributors and consumers. Adopting an integrative strategy also requires both actors to coordinate their activities; look for newest economics of scales; lower production costs; and control supply, distribution, and production aspects in order to protect the image of a brand new organization.

Mergers and acquisitions are external growth operations consisting of taking over existing capacities of another company (i.e. technological knowledge, management, brand, etc.). They rely on a theoretical justification called triple asymmetry (Hamza, 2007) composed of the following relationships: officer-shareholder, target-buyer, and initiator-market.

While most of the research has focused on the officer-shareholders’ asymmetry with the theories of agency, M&As justify the target-buyer's asymmetry with the hypothesis of existing synergy gains of managerial efficiency (Bradley, Desai, & Kim, 1988) and the initiator-market asymmetry, assuming that there is managerial opportunities in the financial market. The opportunity for takeover transactions to be a source of value creation is often defended by expected industrial synergies and market power resulting from a larger size. The measure of value creation in a M&A can be perceived in the short term (around the announcement date) or long-term (after the conclusion of the combination of both activities). When a market matures, shares are relatively inert; therefore, mergers and acquisitions represent an alternative to organic growth. Developing new offers can be accelerated by mergers in different areas. Entering into a cross-border environment may be facilitated by the acquisition of a local company that already has a network of customers and suppliers, access to labour, and relations with local administrations. But, despite these resources required to develop a new business, the process can be difficult to start inside a company migrating into a new institutional and geopolitical area.
The Place of Culture in the Organization: National Culture versus Organizational Culture

Usually, any event in an organization is a part of a cultural continuity, meaning that it does not arouse suspicion, denial, or resistance. Employees are supposed to embrace change in a period of evolution and must anticipate the cultural gap that will be created by this event or this proposed change, to provide actions or conditions that facilitate the acceptance. But M&A generates strong debates on another matter, regarding the type of culture that should be implemented in the new organizational compound. Raynal and Fergusson (2008) even questioned on how the debate around culture integration should be oriented. They went on a state-level understanding by asking these questions:

How to highlight the thought-organization of a country and how to create a common language between these different players?

National culture plays an important role in the transformation processes and defines how foreign investors are perceived by the host country as well as the preferences of the host government in its economic and social reforms and, consequently, in its trade policies. Through their institutions, nations affect standards that enable acquirers to manage the post-acquisition process. Organizational culture plays a more important role when the company is about to evolve.

If the national culture determines the modes of thinking, feeling, perceiving, communicating, acting, and producing concrete objects in society, organizational culture determines the vision of the company and product standards, values, and tools for a given group. Organization can be described as a civilization that has not yet reached maturity to ensure growth, but in which ordinary rules prevail on crops (Raynal & Ferguson, 2008). An organization that generates its own culture must learn to gather different individuals with their different set of values and prepare them to work together through rules and procedures resulting from intercultural management processes implemented by the staff. However, the majority of these values ascend from national values and attachments.

Thus, on this debate, updated research studies propose several ideas to address the question: One idea is to accept that which can change in a culture, but will not be likely be enough to affect what is deep and unconscious (Majidi, 2007). Another idea, is from Hofstede’s comprehension of the importance of nationality in management in political, sociological, and psychological dimensions (Hofstede, 2010). By distinguishing between two groups of culture dimensions, he showed that one group came from the national aspect, and was able to shape personalities and identities; while the other deals with the organizational style of training. The last one addresses three levels of culture change, organizational, team, and individual in order to create consistency and reinforcement that help drive behaviours (Heckelman et al., 2013). At the organizational level, executives must communicate clearly, and reinforce the values and beliefs into the culture they want to create. At the team level, the focus should be on the translation of strategic objectives into the responsibilities and impact of these changes on the team. At the individual level, personal dynamics of change should be addressed. For instance, specific behaviours indicate what individuals need to start and continue to be effective. In addition, all individuals should be rewarded for demonstrating their commitment to the new cultural beliefs.
How Should Culture Form inside Organizations?

After setting all the theoretical aspects of the two concepts above, how should organizational culture be formed inside newly formed organizations? We propose a hypothesis that should be tested solely based on the evolution of the company on three levels of the culture.

On the individual level, when each employee is undergoing a cultural change, his principles, values, beliefs, and representations are turned into routines. And during M&As, specific behaviours based on these routines should indicate what to do in order to evolve and be effective: “Should I agree? Should I not? Should I make a move or not?”

On the team level, when individuals engaged in different activities are grouped together, these different routines have to take the form of skills and knowledge. The combination will follow a learning process in which sharing becomes a big part. Thus, before merging, each team from each entity should focus on translating these skills into responsibilities and evaluate impacts that are going to change the team after the process is complete: “What are we going to win? What are we going to lose?”

On the organizational level, as the learning process has already introduced the stakes, it should be less difficult for executives to institutionalize communication, modelling, and reinforcement of the values and beliefs into the culture they wish to create.

Acculturation and Cultural Tolerance inside Mergers and Acquisitions

During M&A between organizations, the process shows interactions that culture maintains in its performance. Cultural differences will affect shareholder’s value, so it is expected that investing should produce better results in the future, but these differences will also affect economic trends and create new synergies. They also highlight critical effects of the cultural integration process, which is often problematic, especially with regard to synergies. Two aspects have to be considered: acculturation and cultural tolerance. Cultural differences’ management is not a factor that determines the outcome of a M&A, but its usefulness is certainly not to be neglected, since it plays an important role in achieving new synergies.

In that case, cultural integration creates a positive attitude in the new business incentives and out of it emerges a shared sense of identity and trust among employees. That integration addresses the different ways through which culture, practices, and system models of two organizations can be combined (Nahavandi & Malekzadeh, 1988).

Acculturating employees is a way to eliminate arising conflicts and to organize differences by grouping them into values, psychological states and patterns of different behavioural communities. It also inherits and rectifies the psychological contract of the target company to minimize the amount of cultural conflict, by forming diversity and unity through cultural differences in a multinational context. Following the direction where both organizations decide to go, acculturation will take form in three different ways (Jordao, Souza, & Avelar, 2014): either by assimilation, the dominant culture of the acquirer exerts a high level of change on the absorbed; or the two cultures coexist without controlling each other and the two organizations go through the same moderate level of change by mixing; or by plurality, when these two cultures are so
integrated that the operational benefits of the purchaser does not significantly change in the target company.

As a new and improved operating entity, it is important to continue to develop and maintain culture that drives performance and aligns employees following newly developed strategies. We have to assume that the relationship between shareholders’ value and merging companies is one of the aspects that each company has to offer, because it predicts the cultural adjustment and the degree of cultural tolerance (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Thus, the independence of the cultural tolerance towards shareholder value is unclear; it can moderate the relationship between representations and values, or combine both. To the extent that capital market investors have opinions about this information, the merging firms should consider the relationship with other information points while estimating the value of a merger.

**Cultural Shocks and Incompatibilities in the Post-Merger Acquisition Phase**

In the pre-merger acquisition phase, the organizational culture plays a key role in the success in that it is both the cause and the effect of the establishment’s strategic and financial objectives. Thus, an effective organization in the post-merger acquisition phase can be a source of competitive advantages. Assessing acculturation and cultural tolerance should occur in two scenarios: one connected to the performance of the company, but usually acquired; and the other to the identity of both parties, which is complex to manage. Despite new synergies, economies of scale, geographic diversification, and other promises in the beginning rhetoric often give way to the opposite. It has been statistically shown that one-half of M&A’s objectives are likely to fail, and two-thirds of them do not produce the promised creation of value after the operation.

Some studies (Barel, 2006; Viegas-Pires, 2008; Vazirani & Mohapatra, 2012) showed inadequacies in the implementation of cultural tolerance as the main cause of unsuccessful progress since a lot of changes that were made in the strategic directions of the targeted organization resulted in bad results. We isolated several consequences from the post-phase process that can be sources of failure. They have been placed into two categories:

Culture shocks usually affect the control system included in the acquired companies and influence the model of integration and management of people. The purchaser may get intangible resources, but it is not certain whether it acquires the same set associated with the absorbed. Both cultures bring challenges that are both exploitable and manageable such as the availability of resources that are already assembled. But in a rapprochement between the two companies, the slightest misconception can lead to impenetrable resistance to transformation: unanticipated factors, such as human and technical resources (i.e., employee turnover, logistics, intercultural environment, and contexts), are inadequate considering that the legitimacy of the leading organization and its management practices depend on the use of these (Barel, 2006). The miscommunication between both parties is also frequent in the post-phase. As the employees are going into a new model of communication, reactions from this new entity can translate into uncertainty, indifference to each other, language barriers, and clashes. Good communication is essential and can be very specific depending on
national culture influence and fear of change (Vazirani & Mohapatra, 2012; Viegas-Pires, 2008).

Cultural incompatibilities are also present negative consequences for M&As. In a number of professional and academic lectures, examples used show that consequences of a cultural incompatibility directly affect the identity of the organization. This is because changing cultures is considered to be the most complicated aspect to manage, especially if cultures are their foundations. The familiar symbols to objective culture (Smircich, 1983) and the shared values of a subjective culture (Schein, 1986) become important components of organizational identity if they are treated in time by the members of the organization, whether in the case of the acquirer or the absorbed. Organizational identification requires understanding the relationship between employees and the organization and defines that perceived uniqueness and that culture reflected by norms and behaviour patterns evolving over time. As such, if the strong cultures go hand in hand with strong identities, the actual case prove that the two concepts are somewhat different. It reflects cognitive and emotional links between individuals in the group: emotions are running high and are strongly related to their old organizations, and the idea of equality can backfire at any time. Wrong identification can lead to confusion "who is in charge," and "who must give something or must give up everything" after the process. It also creates a perception of unfairness and injustice, which triggers, on the side of the absorbed organization, emotional outbreaks such as resistance to evolution.

Conclusion: Means that facilitate organizational culture's integration in M&A process

The purpose of this essay was to enrich the analysis of the cultural dimension in mergers and acquisitions, by exploring perspectives on culture. We arrived at the conclusion that the concept is partially understood during the process, and in the same manner taken into account in the post phase. Organization culture may not be an efficient indicator, like performance or turnover, but its impacts can be evaluated. From a more academic standpoint, the analysis of organizational culture should be extended to other variables that reflect the integration of members’ personalities. Intercultural management might be the tool that integrates the different values and beliefs within the organization, but it seeks to consider interactions between employees marked by national symbolism and cultural differences (Barmeyer & Mayrhofer, 2009). As every member progressively internalized values, by integrating the vision of the organization, identification will help individuals substitute themselves for the purposes of the company and thus facilitate change. That is when acculturation comes into place. The role of acculturation is complex because multiple factors, sometimes unconscious and established in the organization, are impossible to change. But being able to manage acculturation should bring more legitimacy to the employers and has to be done when both organizations are going into the merging process. Acculturated people are more open to accept change in their environment, and they can help their hierarchy to implement the new culture they wish to create.

Cultural factors in M&As can be studied at both an organizational and national level. These two levels of culture should be treated as separate variables to show how they relate to other aspects, like organizational structure and performance. It is important to take a better look at what defines culture in organizations, because it is one of the
only symbolic paths that help employees understand leaders’ visions. Leadership is also important for M&As to be successful. Leaders have first of all the responsibility to understand cultural differences and their impact on performance and change. Their management style must be compatible with existing and desired values of the new company, and they must teach the means to create adjustments between organizational change, work environment, and the cultural context (Gill, 2012).

We conclude first that leaders should accompany their employees into the acculturation process. Moreover, we should update intercultural management objectives and go beyond training by highlighting the importance of nationality and symbolism in culture. And finally, maybe we should trust and push leadership to take more initiatives on understanding cultural differences and determining what is more important to manage.
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