Impact of Culture On Mergers and Acquisitions: A Theoretical Framework

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Mergers and acquisitions M&As are the front line strategic option for organizations attempting to have competitive advantage over its competitors. Organizations word-wide spend billions of dollars in pursuit of this strategy. However, the success rate is less then estimable. This is mainly due to the clashes of corporate cultures. The objectives of this theoretical paper are to find out the reasons why most of the mergers and acquisitions fail. Four main issues related to the culture clashes are highlighted in this paper, ambiguity and communication problems within the merged entity, properly management of cultural integration, the acquisitions and organizational culture, and Improper acculturation process among the merged organizations. The factors in this paper are based on previous literature. On the basis of different views of authors, a conceptual framework that uses the afore-mentioned issues through out the acquisition process to produce and negotiate some workable approaches. It is suggested that this conceptual framework can give a new insight into explaining the causes of unfulfilled expectations in international mergers and acquisitions

Key words: Mergers and acquisitions, culture, ambiguity, communication, acculturation.

1. Introduction

During the last two decades, due to high competition, emerging of new financing opportunities and decreasing of entry barriers throughout the globe, mergers and acquisitions M&A, internationally and domestically have developed into an admired strategic option for organisations to enhance products range, accessing new markets and attaining new technologies Hansen and Nohria, 2004. However, regardless of the attractiveness, the common agreement is that almost 80% of M&A do not achieve their financial objectives Nahavandi and Malekzadeh 1993 and about 50% simply fail Cartwright and Cooper 1995; Child et al. 2001 cited in, Sally Riad. 2007

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It is true that mergers and acquisitions do fail due to the reasons of financial and economic nature; but making a successful mergers or acquisitions, as most of the organisations have learnt to their cost, is more than 'getting the sums right'. Many firms have also come to recognise that a compatible and successful organisational marriage depends upon the characteristics of the partner, which extent beyond the suitability of the strategic match. Financial advisors may guide merger managers in suggesting the broad areas in which economic of scale may be achieved. However, they do not have to translate them into practice and physically implement such decisions Cartwright and cooper, 1992. Lodorfos 2006.From the literature review and different view's of various author's it is clear that culture clashes between merging organisations have been one of the most common explanations for the failure of mergers and acquisitions.

Researcher such as Buono et al. 1989; Datta and Puia 1995; Veiga et al 2000 put this blame for the lack of success on cultural differences between the companies and the difficulties these differences create in M&A company integration.

Due to cross-cultural situations difficulties in M&A encountered further, when the merged companies are from two or more different countries. People working around the world may respond to the same situations or events in a very different behaviour.

So, it is vital for organisations which are involved in an international merger or acquisition to think about these differences right from the design stage.

However, one should also not forget that combination between organisations with well-matched and highly compatible cultures would face to meet expectations. If they are insensitively or poorly managed, conversely, in situations where the cultures of the combining organisations are highly dissimilar and potentially incompatible, good management can still prove effective.

The author in this theoretical framework identified the following main objectives which will be evaluated critically in the literature review.

1. To observe the role played by culture in the failure of international mergers and acquisitions.

2. To find out the multitude of integration issues and problems that occurs due to the combination of cross culture organisations.

3. To study the frequency and depth of human issues generated in a merger or acquisitions.

4. To give recommendations for better management of cross cultural mergers and acquisitions.

5. To find out ways, how to improve the improper acculturation process among the merged organisations.

2. Explanations for the failure of mergers and acquisitions

The success of mergers and acquisitions are directly proportional to the level and quality of planning involved. Most of the organisations utilise inadequate time to analyse and predict current and future market trends as well as merger issues.

Organisations, sometimes, allocate insufficient resources to establish proper strategic objectives. Many transactions also fail or suffer significant setback as a result of insufficient due diligence performed on the target company Oon, 1998. However, from the research it is apparent that the ratio of mergers failure is high during the integration process Simpson, 2000. Integration fails because of

inappropriate strategic management, differences in corporate cultures, delays in communication and lack of clear vision.

M&A has a very long history; it has been existed at least since the 1900s Gaugan, 1999. However, the saliency of M&A has increased considerably during the past two decades as numerous US firms have adopted M&A as a common corporate strategy to expand their organisational capabilities and to take better competitive market positions Buono and Bowditch, 1989, Sally Raid, 2007. This propagation continued during the 1990s, and beyond, including 7,809 M&A transactions with a total value of $1.19 trillion in the United States in 1998 alone Guaghan, 1999. Now the question arises here is that, why such a high percentage of these transactions did not meet the expectations, which estimate above 60% Gilkey, 1991. Most of the scientists and researchers who searches the literature for clear and systemic answers to question did not found the right answer. However, some progress has been made to find out the suitable answer.

Past research on M&A has focused on either the effect of various financial issues, such as the mode of transactions and the number of bidders, or the performance implications of various strategic issues, in particular, the level of relatedness. For example, a general but still questionable claim is that related M&A display superior performance as compared to unrelated M&A by providing better synergy due to economies of scale and scope Datta, 1991. As neither financial nor strategic perspectives provide sufficient explanations of why nearly half of M&A fail to fulfil prior expectations, However, recent researchers attention has shifted to the human side of M&A, exploring the issues of organisational fit and/or the actual organisational integration processes Hogan and Overmyer-Day, 1994.

Gilkey 1991 argues that mergers and acquisitions failure ratio is high because they are still planned with business and financial fit and consider it as primary conditions, rather they should consider psychological and cultural issues as primary conditions.

"A close examination of these issues could have brought about a learning process, directed at successfully managing such ventures". Gilkey, 1991, p.331.

Risberg 1997 p.257 view that by "studying the concept of acquisitions through a different perception, a cultural ambiguity structure, helps us to understand the complexity of these phenomenon in a better way and perhaps it can prevent some unwanted results". Riseberg 1997 study concluded communication as the most useful device to negotiate meaning out of the acquisition ambiguities during the integration process.

Researchers such as, Cartwright and Cooper, 1992; Bueno and Bowditch, 1989; Gilkey, 1991 all are in a view that during the last two decades, study and management of "Human factor" has become an important source of success in mergers and acquisitions. These authors agree that culture played an important role in M&A. However, it is not that easy to spread knowledge about the importance of culture differences within merged organisations. If the organisations want to work to achieve a higher level of integration, then they have to answer that how the part that culture plays in success or failure of organisational melting processes can be predicted. Cartwright and Cooper, 1992

2.1 Culture differences

Cultural differences, which is considered as to be the most prominent issue for the lack of predicted performance, loss of key employees, and time consuming conflicts in merging of business Bijilsma-Frankema, 2002. According to Bijilsma-Frankema

2002 the term 'Culture clash' could be used to describe the conflict between the merged organisations; which may include differences in their styles, norms, sanctions, philosophies, and objectives. This may, in fact, be the most dangerous factors when two companies decide to combine. Covin et al 1997 argues that even, if the conditions for M&A are favourable, still mergers can so change the nature; orientation and character of one or both of the merged partners; which means it will require five to seven years where employees can feel whether they have truly understood one another's culture.

Many adjustment problems have been witnessed during the post-merger period Mirvis and Marks, 1992. According to Mirvis and Marks 1992, these problems arise due to employee's fear of losing the job and financial debt due to job loss. Also, fears that arise due to the loss of close team members, appointment of new team members and new supervisors can lead the organisations into an ambiguous situation.

By forcing employees to deal with new supervisors and new team members, they could build up worries of taking certain risks and raising sensitive issues. This can lead to develop 'us verses them' scenario, where trust for new members will be nominal Mirvis and Marks, 1992. Organisations, having this kind of situation may find themselves in dilemma due to loss of collaboration and interest among the employees of the new business amalgamation. It will be difficult to achieve the synergies that were initially sought; it will also be difficult to resolve conflicts and sensitive issues, if at all, this resistance arises often. Post-merger can be the most difficult time for the new team to move forward as a whole Appelbaum et al, 2004.

3. Ambiguity and Communication problems with the merged entity

Feldman 1991:p. 146, emphasis that ambiguity begin in an organization when there is "no clear interpretation of a phenomenon or set of events." However, understanding of an event by individuals can be very throughout the organisation Martin and Meyerson 1991. Meyerson and Martin 1991 further explain that ambiguity can exist in the entire organization, as well as among the individual's and depends on their culture's knowledge. So, ambiguity exists at various levels of an organisation and each individual's experience it at different intervals.

In the past number of authors such as, March and Olsen 1976, Khan et al 1964, Cohen and March 1974 have identified ambiguity in organisations. In nutshell, insufficient information and lack of proper communication among individuals, is the main cause of ambiguity in organisations. Khan et al 1964, p.23 also argues that "ambiguity as the lack of clear and consistent information".

Frost et al. 1991 also bind ambiguity and communication. He asserts that with proper information it can be resolved. All these descriptions show clear relationship between ambiguity and information communicated. So, it is obvious that proper communication of information among the individuals can decrease the ambiguity. However, it is also possible that wrong communication may lead to increase the ambiguity.

Once the firms merged with each other and a new firm established, the employees previously working independently will have to adapt the new infrastructure and work environment. Changes will occur because previously independent firms show less similarity in work environment and once they become organised, their expectation will be different from their employees Martin and Meyerson's 1991.Organisations are

becoming global, however, according to Martin and Meyerson's 1991 ambiguity must be identified in the information communicated.

According to Schein 1993 if organisations want to understand one another's culture, they have to acknowledge it. Therefore, proper communication can lead towards acknowledging various cultures inside the organisation. Davis and Jasinski 1993 further view importance of communication that it must be used as a meaningful device for individuals involved. The proper management of change in an organisation can be possible due to proper communication in the organisation. According to Young and Post 1993, p.36 "that communication was too important to make employees less resistant to change." Furthermore, from their study, they also point out that proper communication should be initiated from top management and should be continued through out the transformation period. Scweiger and DeNisi, 1991 elucidate that there should not be any disagreement between the words spoken and action taken. They further explain that, proper communication is an important tool in management of change particularly during acquisition. However, it must be consistent to shun any confusion. Un-consistent communication may be created during the early phases of acquisition process, as every one shapes their own opinion about the acquiring company.

4. Management of cultural integration

Improper communication can not be the only issue for merging organisations; the senior executives of the organisation who are dealing with the amalgamation process, sometimes intentionally withheld information from the employees is also a serious issue. As these kind of issues can create uncertainty, loss of trust and loyalty which leads to develop confusion among the employees.

Many authors argue that, organisations are moving from functional to network form, so, performance of the organisation now depends on trustful relations between each individual of the organisation. According to Miles and Snow 1994, "A high level of trust with in a network form is seen as a functional equivalent of building and maintaining control in functional forms."

A generally conceded idea is that trust on managerial philosophies, actions and beliefs can reduces transaction costs. Authors such as Sheperad and Tuschinsky 1996, Powel 1990, Cumming and Bromiley 1996 are in a view that, if relationships are of a trusting nature, costs associated with control, checks and monitoring can be minimized. Control and trust are vital elements of merged organisations; if control is not minimized then trust will decline among the individuals. According to Handy 1993 subordinates trust on their manager and control over their work by manager is a constant sum. So, when there is increase in the amount of control then the amount of trust will decrease in the same manner. Now, the question arises here is that how the balance between trust and control could be sustained, is still to be answered. And that is due to lack of awareness among the individuals, about which managerial attitude or behaviour should be trusted or distrusted.

The balance between managerial behaviour and the trust among their employees can also be minimised by shared norms which can help in reduction of misunderstanding regarding mutual expectations. Let suppose, people who do not want to harm anyone might do so, because he/she does not have any idea about norms and expectations of others. For this purpose, regular dialogues between the two parties can lead to more sharing of norms which can help how to properly communicate information regarding one another's norms and expectations.

According to Nguyen and Kleiner 2003 that regular dialogue can involve "exchanging ways of thinking and reasoning that have brought about conclusions people draw of each other's behaviour". Simply because of exchanging cannot to be concluded as a learning process. Learning about each other's way of reasoning adds to mutual understanding, and assists comparison: is the other's reasoning really so different or just an alternative pathway taken from a common ground? Do the alternative paths reply to specific situations, each with its own success value? Can they be seen as supplementing each other? Can both ways of thinking be combined in a new logic? These considerations potentially furthering integration may arise, thanks to the quality of a dialogue over the simple exchange of conclusions.

5. Acquisition and organisational culture

Most of the acquisitions suffer due to the culture clashes. The literature has explained culture in the form of "value" having both similarities and differences Riseberg 1997. According to Jemison and Sitkin 1986, cited in Riseberg 1997 to make the acquisitions work, it is very important to find fits between the combining companies. e.g. similarities in corporate culture and management styles Nahavandi and Malekzadeh, 1988.

The most fundamental hypothesis is that to make the acquisition work. The two organisations must be integrated in such away that they become as similar as possible in order to attain a mutual corporate culture Nguyen and Kleiner 2003. According to Haspeslagh and Jemison 1991 cited in Riseberg 1997 that these hypothesis do not fully describe integration in all acquisitions. So, it indicates that, various degrees of integration should be used according to the nature of acquisition. However, researchers such as Napier et al 1989 argues that, the acquired company mostly forced to adapt to the acquiring company's culture and routines which may lead to complications in their adjustment to the parent company. The other way round should also be implemented, it is just a question that which of the two organisations have a better organisational culture.

According to Martin and Meyerson 1991 cited in Riseberg 1997 p.258 "A culture viewed from an ambiguity perspective cannot be characterized as being either in harmony or conflict. Instead, individuals share some viewpoints, disagree about some and are ignorant of or indifferent to others." According to Fines 1991 that still in existing organisational theories, the acquired company should be integrated into the acquiring company's culture which does not account for cultural differences within the organisation.

Inside the organisation many different cultures exist due to people's belonging to different ethnic group gender or nationality Risberg, 1997. Martin and Meyerson 1991 elucidate that according to these organisational theories culture is viewed as something which can homogenises both the organisation and its members. Thus, when the two cultures are merge together, the existing theories which often assume that one of the two should integrate into the other existing organisational culture to make the new organisation work Berry, 1980, Nahavandhi and Malekzadeh, 1988 cited in Risberg 1997. However, an organisational culture rarely has values, norms, expectations and assumptions which unite all organisational members. According to Schein 1993 organisation may consist of different subcultures that may have quite conflicting assumptions about reality.

6. Acculturation process

Nahavandhi and Malekzadeh 1988, p. 82 cited in Salama, 2003 adopt "the anthropological term acculturation to illustrate the cultural changes resulting from the interaction of one organizational culture with another". Cultural differentiation; and organizational forces for integration are the basis of acculturative process. This has been observed by Buono and Bowdich 1989, p. 105 cited in Salama, 2003 "that some individuals may refuse to give up particular culturally bound ideologies, traditions or behaviours, therefore, may purposely delay the acculturation process", or "lag" behind the rest of the organization in terms of accepting culture change Vansina, 1991. Salama, 2003, p.314 further elaborate that "acquisitions selections decisions are generally driven by financial and strategic considerations. Yet many organisational alliances fail to meet expectations because of difficulties in the acculturation process which would compromise the knowledge transfer and learning to occur". These kinds of difficulties in the acculturation process could be a function of either or both of the integration strategies or the incompatibility of the partners' cultures Carwright and Cooper, 1992, Creed, 1996.

7. Conclusion

By critically evaluating various authors' views in the literature of mergers and acquisitions the situation from an ambiguity perspective, appropriate communication among the organisation members seems as to be the most important perspective to be understood in the whole merging process. Inappropriate communication is the root cause for many of the ambiguities seen in mergers and acquisitions Riseberg 1997. Organisations need to develop a system before integration, which must encourage proper communication among employees from top to down wards. This approach will lead to decrease the severity of ambiguities found among the employees during the integration process.

The proper communication system also has to understand culture backgrounds of the employees and need to be acknowledged, which can avoided some of the ambiguities if they occurred because of misunderstanding in the communication.

The second most important factor indentified here is how to properly manage the cultural integration process? This can be possible if the employees feel secure and start trusting on their top management. If they are not secure about their future, trust on top management will be less. This will result in unawareness of top management about their work environment that, how employees are interacting with their managers. In this manner, it is possible that managers can miss important information regarding the integration process. Trust in the process of cultural integrations, can also enhance co-operation between groups belongs to different cultures. This can be achieved by developing acculturation system in the organisation. The acculturation system must consist of how to develop regular dialogues, enhanced share goals, shared knowledge about differences and similarities in norms, values, and expectations making agreements, monitoring conformity and agreements, proper handling of non-conformity, and in advance agreement on conflict resolutions. The acculturation system will be emerged as key factor in trust building.

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