Merging Cultures

ORGANIZATIONAL SUCCESS AFTER THE MERGER

A merger occurs when two or more separate companies make the decision to start sharing resources and organizational objectives (Horwitz et al., 2002). When organizations merge a newly formed culture emerges. This brand new culture is hoped to be a culture that is valuable, good and in alignment with the purpose for integrating organizations. Good cultures are portrayed as cultures that operate by "norms beneficial to the company, to customers, and to mankind" (Alvesson, 2002, p. 43). According to Alvesson, good cultures that practice beneficial norms are composed of employees that display attitudes and behaviors that are applicable to accomplishing organizational goals and objectives. During a transitional experience, such as a merger, these preferred attitudes and behaviors are correlated with "proactive values" (Jones, DeBaca, Yarbough, 1997) which include openness, flexibility, and the willingness to adapt to change (Bridges, 2003).

According to Egan (1993), organizational culture "has been called the largest and most controlling of the systems, it permeates all the activities" (p. 129) within the merger. Harris (1981) adds that culture is a "known body of policy rituals, rules and procedures" (p. 60). When the "known" becomes suddenly "unknown" the integration experience for some employees in the organization creates a feeling of "being uprooted from a community" (Harris, p. 64). As a result, the situation of culture integration is a difficult one as the change and transition that employees in the organization experience is not one that feels good or valued. It feels as though something has been taken away, a loss, a time when confusion reigns and disorder seems to be a daily occurrence. Although evidence shows that transitions involves "a three-part psychological process that extends over a long period of time" (Bridges, 2003), the impact on the newly formed organization may get stuck in "reactive norms" instead of "proactive values". When this occurs, the employees within the new culture may choose to engage in counterproductive attitudes and behaviors, or "reactive norms", which may lead to negative outcomes that become a critical barrier to merger success.

Statement of Problem

Mergers and acquisitions are on the rise. "In 2006 their value reached a record-breaking four trillion worldwide (Braksick, 2007, p. 8). Lesowitz & Knauff (2003) note that more than three-fourths of mergers fail to achieve their anticipated results. Examples of anticipated results for merging with another organization may include the opportunity to increase market share, generate new avenues for profit, or acquire a new product line to diversify business offerings. All of these examples have a common purpose; the decision to merge is to increase the organization's value through synergy (Cartwright & Cooper, 1993). Lynch & Lind (2002) report that Mercer Management Consulting's analysis from 1990 to 1996 indicated that almost half of the mergers in their study had a negative affect on shareholder value. With mergers averaging an approximate 50% failure rate in anticipated expectations, the importance of uncovering what a root cause may be would be to an organization's advantage.

According to Braksick (2007), managers get busy with organizational design and structure and often fail to recognize the "soft stuff" as a priority for merger success. The "soft stuff" refers to how the employees are reacting and living with what Pritchett (1997) refer to as the "psychological shock waves" that are present during a merger experience. A common employee's perspective of culture integration is viewed as "completing a few team building exercises before the process is turned over to accounting and administrative staffs" (Lesowitz & Knauff, 2003, p. 30). These feelings and situations that reflect inattentiveness to the organization's culture perhaps create attitudes, behaviors and conditions that are possible barriers to merger success. The potential cause for failing mergers may be the inattention to how the employees within the organization are responding to the immediate changes a merger creates.

Purpose of the Research

The purpose of this paper is two fold. First, to identify the attribute within the organizational culture that may be applied within the initial stages of the integration phase to help predict merger success. Second, to predict functional behaviors and prevent dysfunctional patterns in employees that limits an organization's strategy from being achieved. The emphasis of this research is to study what pre-emptive strategies can be taken to create a path to organizational value and to define reactive strategies within the organization's culture in order to limit growth of dysfunctional employee attitudes, behaviors and organizational conditions.

Researchers agree that the activities taken place before and after a merger are critical to how the newly formed culture reacts to the sudden change at the time of integration (Diven, 1984). For example, if the two merging organizations have similar cultures, which mean they have compatible values and philosophies, the integration of the two cultures are more likely to mesh. Therefore, planning, researching and a "powerful guiding collation" are pre-merger factors that positively impact how the merger will perform (Diven, 1984; Kotter, 1995).

For this paper, the research is focused on post-merger factors. Examples include the conditions, actions or behaviors that may be taken to positively enhance the result of two organizations integrating successfully. According to a study conducted by Cartwright & Cooper (1993),"the ability to integrate the new company was ranked as the most important factor for acquisition success" (p. 58). The study concluded that integration was rated higher among 200 European chief executives indicating the "soft" issues like integration were more critical to positive merger outcomes than financial or strategic initiatives which were referred to as the "hard issues".

Research Question & Hypothesis

The research question is: What are the strategies, conditions and approaches that are utilized in post-merger situations that may create functional and dysfunctional reactions to the organization's newly formed culture? The purpose for studying dysfunctional factors as well as functional is to synthesize the components and strategies that an organization may take to positively impact the integration phase of a merger.

The hypothesis for this project is: Organizations that form communication and team building activities like team meetings, strategy updates and training on culture integration with all employees within the first six months of the merger may predict organizational merger success.

POST-MERGER CULTURE INTEGRATION OUTCOMES

According to Marks (1999), "operating in a culture is a lot like breathing (p. 14). In other words, employees do not consciously think about culture but when something starts to affect the components of the culture, or affect their breathing, there is a struggle to keep focused, function and live within in the work environment. This out of breath feeling as a result of the integration of two cultures may be a serious threat to the significant numbers of failed mergers. Marks (1999) notes that "the huge failure rate for mergers is frequently due to the exodus of key personnel who are turned off by a culture clash" (p. 17). This means that employees feel a deep psychological change when their duties, responsibilities, colleagues and often their physical surroundings are no longer as they were prior to the merger. When these culture clashes are not managed, behaviors and reactions tend to go out of control creating a "culture conflict" (Horwitz et al., 2002; Weber & Camerer, 2003) that causes employees to leave the organization.

What causes this clash? Research indicates a primary source of culture conflict may occur because organizations that typically merge have "strong cultures" (Peters & Waterman, 1982, Ashby, 2002). Merging organizations have strong cultures because strong cultures are associated with great or excellent companies. A strong culture as defined by Chatman & Cha (2003) has two characteristics, "high levels of agreement among employees about what's valued, and high levels of intensity about these values" (p. 23).This strong willed thinking among the employees within emerging cultures is to be expected since weak cultures that merge are easier to adapt because of their nature to be more flexible (Robbins, 1990). This finding is an indicator that strong cultures in two organizations may not be a positive factor when merging is a consideration. Cartwright & Cooper (1993) believe this to be true as they liken mergers to "organizational marriages where, particularly strong cultures are not meant to change" (p. 60).

Integration involves differences and gaps in thinking, personalities and styles. The goal of culture integration is not to create a completely harmonious unit but to ensure the activities of employees support the integration strategy.

There are various terms for this stage of harmony. Buono & Bowditch (1989) and Schein (1999) refer to this aspect of integration as "blending". Others refer to it as "collaborative marriage" (Cartwright & Cooper, 1992), "compound culture" (Habeck, Kroger, & Tram, 2000), or "culture integration" (Mirvis & Marks, 1992).

Outcomes of Merger Dysfunction

Research has indicated that from the seven studies that have been used for this project there is complete agreement that "culture conflicts are an underlying cause of mergers and acquisitions failing to perform as executives projected" (Ashby, 2002, p. 30) and that "people problems and the time scale of this process are often underestimated" (Horwitz et al., 2002, p. 2). When organizations view the people aspect of their integration as something that will evolve, the culture may "experience high levels of stress, with a fear of loss of identity and status, become obsessed with survival and experience family repercussions" (Horwitz et al., 2002, p. 2). When routines and expectations have been replaced with uncertainty, conflicts emerge from the unknown. (Carey, 2004). These statements reflect the outcomes of what occurs in the organization when employees believe the merger situation does not add value or enhance their current job position.

Horwitz et al, (2002) conducted a study of post merger experiences, or post merger drift (Pritchett, 1997), within five organizations through a series of interviews and focus groups. The data from four out of the five organizations revealed communications were mismanaged and their work units within the organization were not operating as integrated cultures. In interviews with ex-employees from two of the five firms, employees stated they were "pulled apart", "completely swallowed up" and "taken over completely" (Horwitz et al., 2002, p. 4) due to the post merger experience. All of the employees from all five organizations that participated in the study felt uncertainty in their job positions. When employees feel a loss of engagement, talent and understanding of merger strategy, employees generally result to dealing with the perceived crises in the manner they feel best fits their survival style and personal situation.

A possible cause of what creates dysfunctional outcomes are the gaps between what senior executives deem to be important during the integration phase and what the employees believe to be important.

Senior managers view integration due diligence as more financial and strategic than employees do. In contrast, employees feel integration due diligence need not be designed around strategies of structure but for executives to incorporate "soft due diligence" (Horwitz et al, 2002). This study of human resource and cultural factors with employee groups indicated building trust and motivation as a high priority for integrating compared to all other factors needed during the transition phase. This suggests that while senior leadership teams believe they are providing direction or managing the integration, perhaps they are missing the mark by not developing a cultural fit in the employee-employer relationship and meeting the employees' individual needs through motivational approaches to prevent post merger drift.

Another consideration of merger dysfunction is the outbreak of self-destructive habits. Sheth (2007) points out the excellent organizations often have employees that have developed unproductive habits that become transparent when they are under stress. "These self-destructive habits hamper a company's ability to respond and ensure its own survival (Sheth, 2007, p. 5). Sheth defines these destructive habits as behaviors in which employees engage in denial, arrogance, complacency, competency dependence, competitive myopia, territorial impulse and volume obsession. Sheth's evidence of these behaviors impacting organizational success includes the organizations of Ford, Firestone, Kodak and Sears. Muller (2006) points out that these emotional behaviors and destructive habits are a result of the transition phase of the merger process. The behaviors that emerge as a reaction to change that may appear as self-destructive include loss of control, questioning of change and competence, uncertainty, fear of more work and loss of face.

It is important to not confuse the reaction to change with a potential self-destructive habit. Duck (2001) suggests four theories as to why emotions are high with employees that are experiencing the affects of culture integration: 1) Trust determination theory – trust can be taken away rapidly. "Trust factors include empathy, competence, honesty and commitment (Muller, 2006, p. 202); 2) Mental noise theory – people that are upset or scared have difficulty processing communication; 3) Negative dominance theory – upset people have negative thinking patterns; and 4) Risk perception theory – what is perceived is real. Perceptions involving risk directly affect the presence of trust and beliefs of what is fair. These insights and theories suggest that when communication levels with senior leaders are not present, counterproductive emotions, negative feelings and attitudes emerge. The understanding of these behavioral theories correlate with the theory that "the people and so-called soft issues are what can make the difference between success and failure" (Muller, 2006, p. 203) when organizations merge.

Outcomes of Merger Success

Cisco Systems is known as one of the best examples of merger success. In 1999 the company experienced 18 acquisitions and continued with a higher rate in 2000 (Kaplan, 2001). Cisco's merger model includes three factors: 1) clarifying the reasons for the merger, 2) agreeing to a merger strategy that aligns with the reasons for merging; and 3) keeping the focus after the merger on the external customer. The success of Cisco's model appears to be the emphasis on customer service rather than focusing on what the former businesses were or any pre-merger cultures, situations, or events. According to Kaplan (2001) the integration model is "swift and respectful and each unit is allowed - and expected - to continue to focus on the customer rather than on the new parent" (p. 23). In addition to these factors, Cisco values the intangibles of the merging organization that made it successful in the first place.

In addition to Cisco's model, "a Harvard Business School study found that firms that actively managed their corporate cultures realized a 682% increase in revenue compared with a 166% increase for firms that did not manage culture.

Net income increased 756% for the firms that attended to culture versus just 1% for those that did not" (Marks, 1999, p. 15).

In the United Kingdom a study was conducted over a three year period of time comparing the importance of culture to post merger performance. The organizations that participated varied in size and industry. A total of 170 interviews and 700 questionnaires revealed that the culture compatibility of the organizations prior to merging and how the "new marriage contract" was communicated after the merger were the primary factors impacting post merger profitability (Cartwright & Cooper, 1993).

STRATEGIES FOR MERGER SUCCESS

Companies that know how to minimize post merger drift are the ones that succeed in their integration initiatives (Pritchett, 1997). Research indicates that by emphasizing "the people side" of the business as a key strategy in the integration phase, thus reducing the time spent on post merger drift, have a higher rate of success than those organizations that choose to ignore or neglect to building a "soft side" strategy (Bracksick, 2007). Welch & Welch (2007) state that a cultural fit is as important as a strategic one. Daniel (2001) defines this people approach as having a clear understanding of "value drivers". The author defines value drivers as the 20% of the actions that "drive 80% of the value, with the greatest probability of success in the shortest time frame" (p. 201). The following are the top "value drivers" successful post merger organizations take for cultural integration success.

Rapidly Move Through the Integration Phase

Of the organizations that have experienced merger success, they agree that rapid integration is a key component (Pritchett, 1997; Daniel, 2001; Lynch & Lind, 2002) The theory of rapid integration involves employees having a sense of urgency, senior leaders providing financial and human resources to the process, and all employees involved and focused on "short-term value drivers". The short-term drivers are defined as clear objectives that provide value and progress that may be accomplished over a short period of time.

Others refer to rapid integration when senior leaders make decisions quickly and communicate those decisions quickly. The post merger theory of integration speed can be compared to "the postoperative period of recuperation experienced by the patient who undergoes surgery" (Pritchett, 1997, p. 128). Pritchett compares the surgery analogy to merger integration with symptoms including loss of productivity, a physical and emotionally draining experience and difficulty in physically being able to get things accomplished. When employees as well as patients engage in a rapid recovery, the post merger drift that is created is shortened. Figure 1 below visually shows the lull that commonly occurs as a result of post merger drift. According to Pritchett (1997) after a merger employees will experience a dip in productivity within the first three months of culture integration because of the "psychological shock" that occurs during the initial post merger phase. This potential slump in productivity supports the theory of rapid integration in order to reduce the amount of time employees are distracted and uncertain about the newly formed organization.

POST MERGER RECOVERY PERIOD

Focus on the Best of Both

Thoughts patterns of the employees in the organization create the culture integration into a positive or a negative outcome. When the top management team allows employees the process of creating the best practices of the merging cultures they begin the transition from what was theirs to ours. This practice is not new. Research indicates that when employees, the stakeholders, are involved in defining best practices rather than the traditional way of a consultant reporting back best practices, the buy-in this exercise brings is worth the investment of organizational resources (Burkhardt & Gerard, 2006).

Establish Integration Teams

The formation of a team or teams for integration encourages employee involvement that may help manage the emerging culture. By managing the transition with the members of both cultures the "buy-in" required for merger success transitions throughout the culture at a quicker rate. Cisco System's CEO, John Chambers, points out that by not getting caught up in the merger situation and losing sight of what it's important their culture integration has been favorable. When new companies are integrated into Cisco's culture, integration teams are established and assignment "buddies" or mentors are established along with special orientation sessions.

Manage the Integration with "Cultural thinking"

Carey (2004) states that "the right management team is so critical to making the deal work" (p. 163). This means that senior leaders need to be retained, trained in cultural integration processes and encouraged to engage with their people to ensure merger success. Alvesson (2002) refers to this as "learning to think culturally" (p. 47) When the top management team members use a cultural perspective combined with "organizational reality" this thinking inspires them to look at the day-to-day activities with people as a priority for integration success. McKay (2007) refers to this as "a framework for senior management to understand the people and cultural issues within a broader business context" (p. 9). Pritchett (1997) suggests that integration management is not only key to predicting merger success it is also a valuable tool for recovering losses caused by dysfunctional strategies and reactions.

Frequent Two-Way Communication Sessions

As stated previously, seven studies of post merger performance provided evidence that during the integration phase the strategies of communication used by the top management team determine positive or negative outcomes to integration success. Employees beg for information during culture integration. This communication method requires more than dispersing communication electronically or getting employees together to "talk to them". The organizations the have experienced merger success frequently and candidly engage with their employees in face-to-face sessions, structured in small teams throughout the organization (Daniel, 2001). By participating with others in a team structure this provides an opportunity for employees to fulfill their need for socialization. Chatman & Cha (2003) state that the theory of socialization is a primary tool for employees understanding the "values, abilities, expected behaviors, and social knowledge that are essential for participating as an organization member" (p. 27). This communication channel is a must compared to the typical one-way, state of the union communication meeting that senior leadership teams typically hold. It is during this socialization experience that "celebration of early wins", another key ingredient of merger success, are announced and scheduled.

Schedule Regular Visits to Remote Locations

Commitment and support from headquarters is a must during this time of transition. Gordon (1987) suggests that by using a rich communication channel of face-to-face interaction with managers that are located in remote locations will provide a significant payback to merger success. The remote communication visits allow managers and employees to openly surface integration concerns which provide the senior leadership team an opportunity to keep appraised of how the culture is accepting the integration process. The "regular visit concept" is effective with departments within the corporate location as well as remote locations.

Model Leadership Principles

Leaders influence others through their words, actions and deeds. As previously stated, during the culture integration phase of merging the senior leadership team is prone to activities that are more "hard" or task related then "soft" or people related. Braksick (2007) suggest the following leadership behaviors to help create more of a balance between organizational structure and the "soft side" of the integration. First, coach employees as soon as dysfunctional behaviors appear. This means don't hesitate to see if the behavior will change – communicate promptly. Second, communicate clear expectations of what productive behaviors look like in the "new culture". Third, actively listen to feedback and follow through on the promises and commitments to "get back with them". Finally, "model the teamwork you seek from others" (Braksik, 2007, p. 9).

The purpose for managers developing a leadership discipline during the chaotic times of culture integration is explained by Reino, Kask & Vadi (2007). Their study of the environment, internally and externally, on the dynamics of integration concludes that "organizational culture (OC) keeps the organization together, but on the other hand, the culture may become a barrier in innovation process (p. 125). In sum, the behaviors of the employees, whether positive or negative, will either accelerate the culture through the transition or create a decline during the integration phase.

Complete a Culture Audit

Even though the merger is complete, a case study of three merging cultures in the health care industry provided evidence that there were indicators of three separate organizations under one roof (Jones & Yarbrough, 1997). This feedback would not have been received without a mechanism, like the audit, for people to provide insights as to what may be a potential barrier to merger success. A culture audit provides a mechanism for creating a level playing field by getting people engaged in a new culture (Anonymous, 2007). The audit is generally performed by an internal steering committee that encourages participation, shares results and works with team members to take action on audit findings.

CONCLUSION

The purpose of this research was to determine if there are positive or preventative actions an organization can take to lessen the rate of merger disappointments or failures during the post merger integration phase. The surprise from the studies that were researched was the agreement that managing the organization's culture must be a core business strategy for merger success. Those organizations that invest time and resources in human capital during the post merger phase focus on employee engagement as a primary tool for aligning merging culture. This means a successful post merger organization becomes more focused on how their employees in the workplace are adjusting to the merger transition than primarily emphasizing the "harder side" of the merger that has to do with products, capital resources, and organizational structure.

It was hypothesized that there would be a positive impact on merger success for organizations that form communication and team building activities like team meetings, strategy updates and training on culture integration with all employees within the first six months of the merger. The research did indicate that team meetings, interactive communication within the initial phase of culture integration was essential to preventing dysfunctional outcomes or post merger drift.

In sum, the top management teams that actively manage the integration phase of the merger by engaging their employees with the purpose and strategy of the merger are more likely to predict post merger success. The means the top management team believes that culture is a core business strategy to merger success and models their behavior accordingly. In contrast, those top management teams that fail to manage the integration will likely engage in cultural conflicts that result in a drop in productivity and possible failure in overcoming the post merger drift and loss of performance. The evidence proves that preventative measures can be taken to lessen the possibility that post merger drift will result in merger failure.

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