CROSS CULTURAL DIFFERENCES IN MERGERS AND ACQUISITIONS

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ABSTRACT

It is known that 50% of the Merger & Acquisition (M&A) fails, no matter how the success is measured and a recent Harvard Business Review report between 70-90% of all mergers and acquisitions fail. 30% of the failures were due to cultural differences. It is not easy for companies with different cultures to make decisions quickly and correctly. The failure rate for cross-border acquisitions is ever higher. It would appear that the acquisition vehicle continues to be the preferred method of internalization for companies, due to the ease of access to a particular market or for other similar reasons. The importance of cultural dimension for the development and implementation of strategic goals is widely accepted and tested. Management often underestimates the impact that culture has on the deal. Culture has emerged as one of the dominant barriers to effective integrations and more than half of the mergers fail due to lack of cultural integration. If the acquirer isfrom a traditional oriented culture the occurrence of Cross-cultural acquisitions is less. Cross- cultural acquisition deals are more when it is done by acquirers from people oriented culture. Culture is not something that is inherited, but rather something that is taught in our social environment. It is not only manifested by our own thoughts and values, but also by rituals, heroes, symbols. These manifestations are visible to an outside observer as practices, and the cultural meaning of them is only apparent to the members of that culture. The number of parameters to think about and anticipate at pre-deal level in an M&A deal is huge—and it is easy to understand that a cross-border deal increases

that level of complexity. Each cross-border deal is different from every other one. As a principle, each international acquirer should take as a basic assumption that most parameters change from one country to the next. This paper extends the existing research in international M&Aby shifting the perspective towards cross cultural rather than cross-border M&A and find out how the cultural differences can be sorted out.

***Keywords**:* Mergers, Acquisition, Cultural Differences, Cross Border, Governance, Cross Culture

INTRODUCTION

Management often underestimates the impact that culture has on deal performance.[i] However, there are many case instances indicating culture's impact on M&A. According to Cary and Ogden (1998),[ii] AT&T was too late in discovering its significant cultural differences with NCR. Employees objected to work in the same building as NCR's non-union staff. NCR's conservative, centralized management culture was turned inside out by AT&T's insistence on calling supervisors "coaches" and removing the doors to executives' offices. In 1997 dueto severe executive turnover only four of the NCR managers remained after the deal. When AT&T finally sold NCR, the failure of the deal had cost AT&T more than $3 billion, and NCR lost approximately half its market value.[iii] Kingfisher Airlines and Air Deccan failed due to their cultural differences with Kingfisher being a full- flight service catering to premium segment and Air Deccan's primary vision to empower every Indian to fly.[iv]Overall poor M&A results may be attributed to a number of factors- poor strategic or cultural fit, incomplete or haphazard due diligence, paying too much, and or ineffective integration efforts- but all these factors point to the one basic fact: it is easy to do a deal than to implement one. The "actual deal" is that integrating the people, procedures, processes, structures and systems of one business company with another in inherently demanding, even for the most skilled and experienced acquirers, and the integration process must be managed well if the effort succeed.

Now contrast that scenario with Southwest Airlines' acquisition of Morris Air in 1993.[v] According to Lublin and O'Brien (1997), "Southwest spent two months exploring its cultural compatibility before finalizing thedeal. Known for its can-do attitude and friendly esprit de corps, Southwest was committed to finding a partner with a similar orientation. As a result, the integration was completed successfully in only 11 months, rather thanthree years as was originally estimated."[vi]

There is still more convincing and strategic evidence to indicate a direct financial and legal impact of organizational culture. It is established that organizational culture is a viable consideration in merger decisions.[vii]

Nowadays, Executives and the management prefers mergers, acquisitions, and joint ventures as a mode to create companies value in the market.

1. Acquiring technologies, products, and market access,
2. Creating economies of scale, and
3. Establishing global brand presence.

When three suppliers exist it is believed that most markets can provide revenues to them, but if the number increases more than three then merger is desirable. The business world seems littered with integrated companiesthat have lost value for shareholders. The main question that certainly arises is: "What forces are powerful enough to counteract the value-creating energy of economies of scale or global market presence?" Culture has emerged as one of the dominant barriers to effective integration

TYPES OF MERGERS AND ACQUISTIONS[viii]

- Horizontal acquisition: two companies who have a very similar product mix merge. They are active inthe same industry or at the same production stage.
- Vertical acquisition: two companies that are located in different positions in a vertical value chainmerge. The companies are active in the same industry.
- Concentric acquisitions: this means a bigger, more diverse product mix. The companies usually have asimilar process in production or distribution. They are usually active in different, but related industries.
- Conglomerate: The companies are completely unrelated – there is no existing

market or productsimilarity.

- Increased market reach: In this case, the other company is active in the same industry or distributingsimilar products, however in a completely different market. organizational or company culture:

Culture is the deeper level of basic assumptions and beliefs that are shared by members of an organization that operate unconsciously and define in a basic 'taken for granted' fashion an organization's view of its self and its environment."[ix]

"Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values."[x]

So, culture usually concerns and is based in symbols, values, ideologies, attitudes, beliefs, customs, and written and unwritten rules. Therefore, organizational culture is the combination of values and behaviors that form the individual environment of the organization The organization's expectations, all its experiences and values are included and it expresses itself in its self-image, in how the organization and its members interact with outside players, in how the organization treats its customers and employees, but also in how free decisions are made and new ideas are developed and in how power is dispersed through the hierarchy and how the flow of information is organized.

In order to successfully change organizational culture, or blend in two different cultures, one first has to gain a deep understanding of the concept of culture. The companies have to be completely aware of how individual employees and the behaviour of the whole group are influenced and defined by the company culture. Moreover,it must be taken into consideration that a company is usually not made up of one single culture, but is a collective of a variety of subcultures working together.[xi]

Successfully achieving change in organizational cultures is a rather difficult task that is hard to complete. The emotional outcome of changing an organization and its culture can be either positive or negative. This depends on a variety of different factors, such as the perceived attractiveness of the end result, how the change is implemented, leadership in the change process, and, of course, the personality of the individual employee. Negative reactions or even resistance to the change targeted can be seen two ways: Either as "culturally acceptable and negotiable – or as unacceptable as a barrier to be 'dealt with' or 'managed'" This means, that itis either seen as a chance to get more helpful input for the change process by involving employees, or that managers have to suppress these negative reactions and get them under control.[xii]

CULTURE ASPECTS WHICH RESULTS IN

Decision-making style which results in effective integration requires rapid decision-making. Different decision-making styles can lead to slow decision-making, failure to make decisions, or failure to implement decisions.

Leadership style

- A shift in leadership style can generate turnover among employees who object to the change. This is especially true for top talent, who are usually the most mobile employees.
- Loss of top talent can quickly undermine value in integration by draining intellectual capital and market contacts.

Ability to change

- Unwillingness to implement new strategies.
- Unwillingness to work through the inevitable difficulties in creating a new company.

How people work together

- Merged companies will create interfaces between functions that come from each legacy company, or new functions that integrate people from both legacy companies. If the cultural assumptions of the legacy companies are inconsistent, then processes and handoffs may break down with each company's employees becoming frustrated by their colleagues' failure to understand or even recognize how work should be done.

Beliefs regarding personal "success"

- Again, these differences can lead to breakdowns in getting work done. If people who believe they have to achieve goals as a team integrate with people whose notion of "success" emphasizes individual performance, the resulting situation is often characterized by personal dislike and lack of support for getting the job done.

COMMUNICATION

Primarily, management has to give members of the newly formed organization a sense of belonging to the company. In order to achieve that, a common mission, value system and a vision that is shared by everyone have to be developed. This gives employees a sense of moving forward together. The difficulty lies within letting everyone participate and listening to everyone, but at the same time giving direction to and shaping the M&A. The most important issue in this process is communication. To give the M&A a chance of realizing its full potential, the members of the organization have to be brought in the loop, listened to, respected, and given time to adjust

LEADERSHIP

Another important aspect in changing company culture is leadership, leaders who have certain characteristics are generally more effective in managing change within an organization. Relevant characteristics include: considering the individuals, inspiration, an orientation towards the future, taking risks, building coalitions and effective communication.

BALANCING PROCESSES

Managing change is all about connecting the individual processes and balancing them out. It is vital to understand how the pieces work together and how changing one can set off all the others. What is important is not that each individual process works well, but that the combination of all the individual processes is a success

EMOTIONS

Feelings and emotions have been proposed to play the most important part in getting all the employees on board, by evoking positive emotions within employees, they are much more likely to be on board with the changes put into place by the management. By engaging emotions, leaders provoke commitment within the employees towards their cause.

How to measure and assess organizational culture

Forstmann in his research assumes that culture can be measured in two ways: either by looking at the inputs to culture, or by looking at the outputs that are the result of deeper rooted things. According to Cartwright and Cooper[xiii] it is only when one can no longer be surprised by the actions an organization takes and is even able to predict the most likely response of members to certain situations in most cases that one can claim to have completely understood a company's culture.

There are a variety of ways to measure organizational culture in a comparable way. Another strategy to assess organizational culture is used by Cartwright and Cooper (1992). Their goal is to divide the culture in either one of the four types of power orientation, role orientation, task orientation or person orientation which will be explained below.

TYPES OF ORGANIZATIONAL CULTURE

There are various ways to classify types of culture, such as the models developed by Deal and Kennedy[xiv] or a different model by Denison,[xv] who describes culture on the four general dimensions of mission, adaptability, involvement and consistency. However, the model of the cultural fit developed by Cartwright and Cooper uses Roger Harrison's model of classifying culture as a basis.

Power Orientation

In a power oriented culture, the company or organization strives to dominate its environment and get rid of all opposition. Within the organization, those in charge have a strong tendency to keep complete control over employees or subordinates. The organization tries to augment its territory or control with disregard for others and by exploitation of weaker organizations

The most important characteristic of a power oriented culture is the strong centralization of power. It often lies with a single person or a small circle of individuals. Due to the fact that power cultures are very hard to keep upas the organization grows bigger, this type is more often encountered in small companies with a charismatic leader. Decisions are mostly made by the person in charge and often based in intuition rather than logic. The biggest advantage of this sort of organizational culture is that the company is able to react rapidly in case it needs to, due to the central decision making. On the other hand, in such a situation the company is ill- suited to process information effectively as it needs to pass through all organizational layers. Moreover, low morale and dissatisfaction among workers are often ubiquitous, leading to the company not fulfilling its potential.

Power orientation can be further differentiated into patriarchal power cultures and autocratic cultures:

PATRIARCHAL POWER CULTURE

In a patriarchal power culture, the exercise of power is perceived as legitimate. This is due to a strong personal commitment of the leader to the business and its future. He or she usually has a strong benevolent attitude towards and strong protectiveness of their employees. The staff is often treated in a familial, patronizing way and usually poorly informed of “grown up” matters concerning the organization.

AUTOCRATIC CULTURE

Leaders in an autocratic culture base their exercise of power solely in their position within the organization and their commitment to the organization is a question of personal gain. Therefore, their exercise of power is not considered as legitimate among employees

Role Orientation

Role orientation can be considered a reaction to Power Orientation. The focus is on being very rational and orderly; legality, legitimacy, and responsibility are valued highly. Every aspect of organizational life is in a patriarchal power culture, the exercise of power is perceived as legitimate. This is due to a strong personal commitment of the leader to the business and its future. He or she usually has a strong benevolent attitude towards and strong protectiveness of their employees. Behaviour in such an environment is highly predictable, with stability and respectability being cherished at least as much as professional competence. In a role oriented culture there is a tendency to value procedural correctness higher than actual task effectiveness.

A role oriented culture has proven very effective in stable environment conditions. However, the high level of formalization detains change. Quick reactions to changing market conditions are almost impossible. The security and predictability such a system offers comes at the price of constrained innovation and high risk aversion.

Task Orientation

As the name suggests, the completion of a task, the achievement of a higher goal is the most important thing ina task oriented culture. This goal is not necessarily a financial or economic one; however, the whole organization's structure is fitted to the achievement of that goal. Structure, processes and activities are constantly evaluated as to how well they contribute to the higher goal. If anything stands in the way or is not ideally suited to reach the goal, it is replaced.

Project teams within existing organizations are often characterized by a task oriented culture. The commitment to and the challenge the task proposes energizes and boosts the individual team members. There is no formal authority dictating how the project team has to organize itself. Rather, the characteristics of the task itself dictate how work is organized.

On the one hand, such a work environment is highly flexible and grants a lot of autonomy to the individual workers. If handled effectively, this leads to a very creative environment and hugely satisfying working conditions. What is more is that such an organization is well prepared for changing circumstances – short communication channels and decentralized control enable a prompt and adequate reaction to a change in the external environment. On the other hand however, the absence of formal authority means that control can become an issue. Furthermore, when times get hard, such cultures often develop into role cultures.

Cross border deals are more complex than domestic deals. Cross border deals now represent a major and relatively stable segment of the M&A market. Cross- border deals have increased from 0.5% to about 2% of theworldwide GDP between 1980 and 2000. The number of parameters to think about and anticipate at pre-deal level in an M&A deal is huge—and it is easy to understand that a cross-border deal increases that level of complexity. As an example, the Holcim-Lafarge Swiss and French transaction in the cement industry had todeal with 15 major competition and regulatory jurisdictions. Cross-border deals must indeed cover such different areas of expertise as economy, regulation, finance, markets, competition, assets, people, technologies, and so on. Usually these elements are quite well known at the domestic level. In an international deal, when such driving elements and potential impacts must be analyzed for each of the countries at stake, this is a major issue that many firms do not correctly cope with.

By default, one should be more positively surprised by commonalities than by the local (peculiar) differences. How local economies perform, how they rely on infrastructure, how they optimize raw materials, how employees and clients consider the concept of proper social relations, work time versus leisure, duty, reporting, loyalty, and how all these apparently universal concepts are modeled is in fact very different from one country to the next. Meanwhile, some mergers endured the cultural challenges to turn failures into success stories. One such example is that of Hewlett Packard (HP) and Compaq. In 2001, struggling computing giant Hewlett Packard acquired similarly struggling competitor Compaq. There were major cultural differences as HP's engineering-driven culture was based on consensus and the sales-driven Compaq culture on rapid decision making. This poor cultural fit resulted in years of bitter infighting in the new company, and resulted in a loss of an estimated 13 billion dollars in market capitalization. However, the company hung on, and by makingsignificant cultural and leadership changes resulted in long-term success.[xvi]

CONCLUSION

Culture must be one of the prime factors to integrate companies, if left to the companies' culture will mostly undermine value-creation of the firm. Culture issues should be addressed at the initial stage of the deal itself because it is powerful and it is implied that employees will hardly be ready to change their beliefs in order to adopt new cultural values. Prior to a M&A both companies should appoint a task force to review transition issues and opportunities, Cultural integration needs to be part of the due diligence checklist, not an afterthought that it isaddressed only after the deal is done and Employees should be given an opportunity to voice their opinions.

By tying culture as a value-creation factor and to identify and change specific behaviors when necessary, it will become an important tool for achieving post-merger success.

ENDNOTES

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