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TITLE

Organisational Culture: The Effects of Cultural Differences during the Integration Process of Mergers and Acquisitions.

THE AIM OF THE STUDY

Mergers and acquisitions (M&As) are a source of business transformation solutions. The intended strategies behind M&As can include corporate growth, increase in market share, combined synergies, economies of scale, diversification and shared resources. Nevertheless, history shows that most of the time these combinations fail to reach the intended preliminary aims for various motives (Weber & Camerer, 2003). Research suggests that approximately fifty to seventy-five per cent of M&As fail to live up to expectations. The post-performance has been vastly researched whilst the post-integration process in relation to cultural differences has been the least investigated (Kroon, Noorderhaven, & Leufkens, 2009).

Within the local scene, M&As have become common across a number of market sectors in these last couple of decades. This study sought to explore whether cultural differences between the two companies during a merger or acquisition have an effect on the integration process which ultimately makes the combination a success or a failure. Cultural disparities during the integration process have a number of detrimental factors such as synergies realisation and communication. In a report compiled by Schuler

and Jackson (2001) on Human Resources issues and activities during M&As, it is evident that most of the time the human capital aspect is neglected, giving rise to an amount of uncertainty, lack of employee awareness and also loss of key employees. The financial and legal aspects are addressed with prominence whilst the workforce is left helpless in such situations.

This research study was conducted amongst four sets of organisations that have gone through a merger or acquisition in Malta, and was mainly focussed on the human capital aspect. The study investigated that if organisational cultural differences are not tackled appropriately before any business takeover, the integration process will encounter several stumbling blocks, such as organisational cultural dissonance, job-role ambiguities and confusion in work practices.

METHODOLOGY

The type of methodology used to determine the form of employees' integration during a merger or acquisition, was a qualitative data analysis with an epistemological interpretivist approach using the mono-method technique as a research choice. Local organisations that have gone through either a merger or acquisition were identified, together with the interview process as the main research instrument. Two mergers and two acquisitions were investigated.

The sample was composed of nine employees coming from various strata of the private sector and who had experienced in these past five years either a merger or an acquisition. Nine interview questions were prepared to represent certain themes which were deemed to have a considerable amount of weight on the research study. Therefore, they represented a significant nuance in particular to data sets and in relation to the main scope of the study. The sample was captured through semi-structured interviews held at the interviewees' offices. The structure of the data analysis, after the data was captured and compiled, provided the main themes on which the findings were based. The four themes that emerged from the thematic analysis were integration, organisational culture, synergy realization and communication. The findings and the appropriate analysis for every theme with the relevant sub-themes have been split into Mergers and Acquisitions separately, in order to give a clearer picture of each situation.

FINDINGS

The results suggest that, in two acquisitions and one merger, there were similar shortages of lack of communication and synergy realisation which prevented a successful integration process. Organisational culture gaps have also been identified. The interviewees have all stressed the importance of getting employees prepared in all phases before the integration takes place.

Factors attributed to organisational culture such as work practices, the host and guest scenario, the 'us versus them', the lack of communication before the integration process commenced, unfamiliarity with new colleagues, culture imposition and the lack of synergy realization proved to be significant challenges leading to friction and conflict. When the human capital aspect is neglected during the negotiations, the integration of two different cultures takes longer than expected. There was full agreement amongst the interviewees that what constitutes a successful integration depends particularly on the approach taken by the major stakeholders before the business takeover or amalgamation actually takes place. Particular attention needs to be given to organisational cultures and the subsequent levels of integration because the greater the level of integration, the higher the degree of assimilation that ultimately affect the emotions and attitudes of employees.

Conversely, the other merger has had a successful integration process attributed to well-planned strategies combined with constant communication with all stakeholders.

The interviewees were glad to declare a synergy and a smooth operational flow without any glitches which provided the desired business continuity.

CONCLUSION

Due to contemporary business trends, mergers and acquisitions are gaining more popularity with the scope of consolidating resources, especially where the line of business is homogenous. However, in order to have the desired return for which the combination is intended, the human capital aspect and the amalgamation of both sets of organisational cultures have to be addressed well ahead of the business takeover and ideally during

the due diligence process. A failure to address such element may result in flaws that slow down and threaten the integration process. Finding the right pattern for M&As to ripe the desired outcomes is the primary concern which unfortunately still persists.

Various reports from financial institutions such as KPMG (KPMG International, 2013) have in these past thirty years indicated incompatible cultures as the main reason M&As can and do fail. The underlying fundamental principle is for the change agents to own the process and understand entirely the importance of involving the human capital aspect, addressing any cultural differences before the integration process takes place.

References

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