

# THE EFFECTS AND MANAGEMENT OF CULTURAL DIFFERENCES DURING THE INTEGRATION PROCESS OF MERGERS AND ACQUISITIONS

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## ABSTRACT

This qualitative research study investigates how cultural differences were tackled during two mergers and two acquisitions and the result that this had on employees and the smooth running of the organizations. Data derives from a sample of nine employees who experienced a merger or an acquisition during the previous five years. The results indicate that in two acquisitions and one merger, insufficient instrumental communication prevented a successful integration process leading to low synergy realization. Organizational culture gaps were also identified. On the other hand, one merger experienced a successful integration process which was supported by well-planned strategies combined with constant communication with all stakeholders. This study indicates that failure to manage cultural differences during mergers and acquisitions may result in flaws that slow down and threaten the integration process.

Keywords: Organizational culture, mergers and acquisitions, integration process, information management, instrumental communication, synergy realization, leadership.

## INTRODUCTION

Mergers and acquisitions (M&As) are becoming increasingly popular and are viewed as sources of solutions for business transformation. The objectives behind M&As can include corporate growth, increase in market share, combined synergies, economies of scale, diversification and shared resources. However, these combinations very often fail to reach the intended aims for various reasons (Weber & Camerer, 2003). Research indicates that the performance stemming from M&As often leaves much to be desired. Indeed, between half and three fourths of M&As may fail to live up to expectations (Cameron & Green, 2009). Whereas the post-performance of M&As has been vastly researched, the post-integration process in relation to cultural differences has been less investigated (Kroon, Noorderhaven, & Leufkens, 2009).

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M&As are very complex events with a myriad of variables that can influence their outcomes (Kavanagh & Ashkanasy, 2006). A number of themes emerged over the years as being critical to secure integration benefits, including the social and cultural integrations processes (Stahl & Mendenhall, 2005). Research indicates that cultural mismatch is one of the top reasons why M&As fail (Cartwright & Cooper, 1993). Cultural disparities during the integration process may lead to detrimental consequences on synergies realization and communication. Schuler and Jackson (2001) show that very often, the human capital aspect is neglected during M&As, giving rise to uncertainty, lack of employee awareness and also loss of key employees. However, culture is not always be given its due importance in M&As since it is considered to be an intangible factor when compared to the financial and legal aspects of negotiations. While the financial and legal aspects are normally thoroughly addressed, the workforce is often left helpless in such situations.

Giffords and Dina (2003) argue that while traditionally, studies about mergers focused on 'hard' organizational aspects which are also relatively easy to measure (such as staff compensation and so on), research must also investigate 'soft dimensions' such as organizational culture and human relationships which are harder to measure but also affect the success of mergers. Thus, this study expands existing theoretical research on the aspect of culture within M&As by examining the following research questions in the context of four M&As in Malta:

- a. What is the impact on the integration process caused by culture disparities?
- b. How does the management of cultural differences affect employees' perceptions of the integration process and its outcomes?
- c. Does proper communication planning enhance the level of the integration process?

The next sections introduce the phenomenon of M&As and focus on the critical aspect of organizational cultures during such processes. The roles of leadership and information management are also highlighted.

## **MERGERS AND ACQUISITIONS**

Business combinations pre-date the industrial revolution, where firms used to amalgamate resources for various reasons such as better financial status and larger market share. Business combinations enabled capitalists to gain a stronghold within various market sectors. The nature of the business combination activity has evolved considerably particularly in the last century (Ferguson, 2009). There were five unique global waves of M&As since the 1890s, with each having a tremendous impact on the shape of industries (Ferguson, 2009). The fifth distinct wave of activity started as early in 1990s and is still going on today. M&As have become a popular method used to achieve growth, economies of scale, a better market share, corporate diversity, and rationalization (Koteen, 1997; Kavanagh & Ashkanasy, 2006).

In order to make sense of M&As, which are highly complex events involving a multitude of aspects, they have been classified in three different types, depending on the business sector each party forms part of, namely horizontal, vertical and conglomerate. A horizontal merger is a business combination between two or more

companies that compete directly with each other. Similarly, a horizontal acquisition is a business takeover or transfer of undertakings of a particular business organization which is in the same type of business industry (Moyer, McGuigan & Kretlow, 2009). On the other hand, a vertical merger occurs “when the merging firms produce goods (or services) at different stages in the production process of some final product. Typically, one product is an input used at a succeeding (or ‘downstream’) stage to produce the other” (Schlossberg & American Bar Association, 2004, p. 439). This effectively occurs when a particular company acquires its direct supplier or one of its major customers. Vertical merger or acquisition tends to be based on a customer-supplier relationship like, for example, an organization which manufactures printers acquires a company which manufactures ink and toners for the same company. According to Moyer et al., (2009) the vertical type of mergers and/or acquisitions has gone gradually out of fashion in these past couple of decades. Conglomerate mergers and acquisitions feature two companies which are not in competition with each other or do not even have the customer-supplier relationship. The conglomerate merger occurs when one organization diversifies its line of business by joining forces with another company (Moyer et al., 2009). A typical example is when a particular company which sells furniture amalgamates with a company which sells and installs shelving solutions. The business combination brings in two different products and thus two distinct lines of business. Such diversification may reduce business risk.

The number of registered transactions of M&As increased exponentially in recent years. “Since 2007, these operations have seen an increase of 47% on a global scale...[T]he global value of M&As was estimated at \$ 4.7 trillion in 2015” (Remanda, 2016, p.99). The significant rise in M&As’ activity has given the opportunity for academics to intensify their research in this particular type of business development (Gaughan, 2011). While M&As “are premised on the belief that the combined company will have greater value than the two companies alone” (Marks & Mirvis, 2011, p.161), many business combinations do not manage to obtain the results that the process was intended for. According to report issued in 2008 by a company specializing in management and technology consultancy, although M&As are seen as a means of business growth, between 55% and 77% of the deals fail to meet the strategic and financial objectives which were initially intended to provide (Fletcher, 2008). This figure is in line with Remanda (2016), who stated that “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” (p.106).

### **ORGANIZATIONAL CULTURE**

Stahl and Mendenhall (2005) observed that “traditional variables used to predict and explain M&A performance, such as degree of strategic fit, method of payment, or amount of acquisition premium paid can only predict the success of a merger or an acquisition if integration process variables are taken into consideration” (p.xiii). Lakshman (2011) highlighted that “it is now well accepted that aside from some exceptions, a remarkable number of failures in M&As are due to poor post-acquisition integration” (p.605). “Much of the literature explains that problems arising from trying to blend two separate organizations into one flow from the differences in each entity’s culture” (Giffords, & Dina, 2003, p.74). Indeed, researchers identified organizational culture disparity as a main reason for the failure of M&As (e.g. Stahl & Mendenhall, 2005; Levin, 2000). “As a

result, it is gaining increased legitimacy as an important business issue requiring proactive and deliberate management. Managing culture or attempting to systematically change it requires understanding its characteristics and how it operates" (Levin, 2000, p.83). By understanding the concept of culture, one may acquire a deeper awareness of how it affects human behavior within organizations (Giffords, & Dina, 2003).

Hofstede (1980) defined culture as "the collective programming of the mind that distinguishes the members of one human group from another" (p.26). As organizations are formed by groups of humans, they have corporate identities which reflect the relationship between humans who contribute towards the success of the organization itself. Organizational identity is formed by employees and is gradually shaped on a span of time. Organizational identity stems from organizational culture, which encompasses employees' beliefs, values and practices (Ravasi & Schulz, 2006).

In his more elaborate definition, Schein (2009) states that culture is "a pattern of shared tacit assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore to be taught to new members as the correct way to perceive, think and feel in relation to those problems" (p.27). In line with Schein's definition, employees' view of reality is mostly based on daily behavior which is in turn driven by learned, shared and tacit assumptions which cannot be reconstructed without any help as this is the only way the employees know. It is very difficult to change a particular organizational culture because of its stability due to the accumulated amount of learning within the organization (Schein, 2009).

Peterson (2004) argues that the most important aspects of organizational culture are hidden. He compares culture with an iceberg where 20% is visible, and the remaining 80% is under sea level. The top part of the iceberg is anything which can be perceived through the senses, like behavior and attitudes. The parts below sea level represent important unconscious characteristics of the organizational culture; the deeper these parts, the more difficult it becomes to reconstruct such characteristics. Thus, Peterson (2004) observes that it is much easier for an individual to change his opinion in a five-minute conversation than to change his own beliefs or values. Like Peterson, Schein (2009) also uses a hierarchical model to explain organizational culture. The top level is consists of visible artefacts and practices like experience, level of communication and architecture. Level two includes the "espoused values", or the conscious strategies, goals and philosophies. Finally, level three is the invisible element where there are hidden parts of the organizational culture, such as the basic assumptions.

### **LEADERSHIP AND INFORMATION MANAGEMENT IN M&AS**

One of the most important aspects in the study of organizational culture is the concept of change, and M&As bring about one the most transformational types of change within organizations (Bajaj, 2009), potentially resulting in new organizations. Considerable research discusses the vital role of leadership (in the form of the CEO and the executive team) for the smooth change process required in M&As (Kavanagh & Ashkanasy, 2006).

Leaders need to understand the cultures of both organizations and the emerging cultural differences. It has also been argued that "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, in Remanda, 2016, p.108). Highlighting that leadership is intertwined with organizational cultures, Schein (2009) points out the trust-building role of leaders. Besides, according to Schein (2009) the contemporary trend is that subordinates are in some ways becoming more skilled and knowledgeable than their direct leaders, and thus leaders need to be humble and able to seek help in order to generate the right ethos within an occupational culture approach. It has been argued that leaders must be able to involve all employees in the integration or change process for this to be successful (Kavanagh & Ashkanasy, 2006). However, if leaders are not skilled enough, their actions may adversely affect the organizational culture, and may even lead to the downfall of the organization (Kelly & Earley, 2009). Such destructive path may stem from leaders’ inadequate communication and change management skills, which research has linked to negative perceptions in employees towards the integration process (Kavanagh & Ashkanasy, 2006).

As leaders often face employee resistance when trying to redirect an organization, it is important to thoroughly understand the underlying causes of such resistance in order to improve the outcomes of mergers (Kavanagh & Ashkanasy, 2006, p.586). Throughout the change process, leaders have to deal with the employees’ defense mechanisms deriving from shared norms and values which formed part of their old organizational culture (Larsson, 1990). The Social Identity Theory (Tajfel & Turner, 1979) sheds light on one important defense mechanism - the ‘us versus them’ mentality. The theory explains the formation of personal and social identities within the framework of group dynamics. Personal identities are beliefs about one’s character such as skills, abilities and attractiveness. On the other hand, social identities are one’s awareness of being part of a social group and the subsequent emotional attachment to the same group. Social identities are constructed through social-categorization which classifies a particular person within a social category and excludes him/her from other social groups. Employees who are involved in any kind of merger or acquisition tend to be biased in favor of their own particular group and create unfair attitudes towards members which form part of other categories. The uncertainty, insecurity, helplessness and loss of control which may reign when the merger or acquisition is announced, accentuates such attitudes. Employees may also feel betrayed by their management, and the fact that they may be facing radical changes in job roles, terms and conditions and relationships with co-workers, may make them rebellious. Consequently, the phenomenon of social-categorization creates biases and an ‘us-versus-them’ mentality as employees would consider the acquirer as a threat to their livelihoods. Additionally, according to the Social Identity Theory, employees further seek self-enhancement in this process to the extent that cohesiveness amongst the acquired group increases and the move may become resisted. The same members may have a feeling of resentment, distrust and hostility towards the other group.

As they experience the process of a merger or acquisition, employees’ reactions may pass through a number of stages commonly associated with personal loss, consisting of disbelief and denial, anger through rage and resentment, emotional bargaining beginning in anger and ending in depression, and finally acceptance (Mirvis, 1985). Leaders need to manage properly each stage in order for employees to reduce resistance and accept change, as otherwise, the risk of failure in the integration process increases (Kavanagh & Ashkanasy, 2006). A smooth integration process requires that employees

accept leadership influence. "Change that is executed by coercive power...is not likely to be sustained" (Kavanagh & Ashkanasy, 2006, S86).

The proper management of information and communication is crucial throughout the various stages involved in a merger or acquisition process. A thorough investigation of the potential compatibility of the cultures should form part of the due diligence process before any merger or acquisition takes place. Unfortunately, the analysis of cultural differences between an acquirer and a target is often neglected during the due diligence process (Schweiger, 2002). Such analysis should be given its due importance when deciding on whether a merger or acquisition process should proceed. If a decision is taken to continue the merger or acquisition, cultural gaps such as reward management, health schemes, training and development and so on need to be addressed by reaching the right equilibrium between the two cultures in order to create a common structure. Giffords and Dina (2003) go so far as to argue that "merger requires that a new culture be created" (p.74). When the merger or acquisition takes place, it is normal to have conflict between the two sets of merged companies, especially if the cultural aspect has not been taken care of adequately. "Miscommunication between both parties is... 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" (Remanda, 2016, p.106). This should not result in leaders trying to centralize all the information in order to maintain power, thus creating an unhealthy environment for the employees concerned. Unfortunately, it is common for executives in the acquired company to keep large amounts of information to themselves in order to protect their positions and power. Cultural friction can be successfully managed by providing a constructive environment where employees can gather accurate information about each other where perceptions and differences are brought to a ground level (Stahl & Mendenhall, 2005). Providing regular and relevant information to employees during the integration process may reduce the eventual cultural shocks. Keeping employees informed of the integration process, diminishes the amount of potentially counterproductive information that would otherwise be exchanged informally through the grapevine. Open communication also helps to maintain the trust of both sets of employees towards the organization and may reduce and manage perceptions of psychological contract breach.

## **METHODOLOGY**

This study attempts to gauge the impact of organizational cultures on the integration process and additionally addresses the communication planning process before the merger or acquisition takes place. The type of research methodology and the data sources within the selected organizations are highlighted. The research instruments and procedures used are then described.

### *Research Design*

An applied qualitative research methodology was followed in order to get a deep insight of the circumstances encountered by employees during the integration process. This methodology enables the segmentation of researched data in components and elements, their analysis and subsequent reassembling to form an interpretation or a paradigm (Boeije, 2010). The qualitative approach also offers a flexible procedure to

capture data by potentially altering the interview questions during the process through a semi-structured discussion. The search for similarities of the documented interviews and observations to create the essential themes was deemed to be the most beneficial way to answer the research questions guiding this study.

#### *Data Sources*

Interviews were conducted with nine employees, four females and five males, from different organizations that have either merged or were involved in an acquisition. Their age varied from 23 to 53 years. These employees were chosen on the basis of their broad range of occupational experiences. The employees derived from eight companies involved in two mergers and two acquisitions. There is no publicly-available list of M&As in Malta, and a request for such data from the Malta Financial Services Authority was declined due to data protection issues. Thus, the selection of M&A cases was made on the basis of convenience, through the contacts of one of the authors. The following are the four cases examined in this study. The names of the organizations are omitted in order to keep them anonymous.

Acquisition A. The acquisition of a company dealing in office equipment by another one in the same business. The size of the consolidated workforce at the time of the acquisition stood at less than 50. Two informants holding the positions of engineers and representing the target company were interviewed. From the acquirer side, one employee holding a managerial position was interviewed.

Acquisition B. The acquisition of a software development company by another one in the same business. The workforce at the time of the acquisition stood at less than 50. Two software developers, one from each company, were interviewed.

Merger A. The merger between two companies in the food and beverage industry. The number of employees at the time of the merger was over 150. An employee from each company was interviewed. One worked as a clerk and another one as a purchasing officer.

Merger B. The merger between two companies in the travel and insurance business. The number of employees at the time of amalgamation stood at less than 100. Two employees, one from each side of the merger, took part in the interview process. One was a travel consultant and the other one was a manager.

#### *Research Instruments*

A set of eight descriptive questions emanating from the literature review were drafted for the interviewing process. The questions were drafted to shed light on the preparation method of both organizations in relation to the human capital, rather than the conventional financial and legal aspects. The questions also addressed the extent of the success of the integration process. Similarities and divergences relating to the organizational cultures were taken into consideration in order to evaluate the impact they had on the integration process. The level and type of organizational communication was also examined. Finally, the participants were given the opportunity to express their views on how such process could have been handled better for the benefit of both sets of employees and the organization.

### *Research Procedure*

Some of the participants were contacted by email and others directly by telephone. Appointments were set with the relevant interviewees after the necessary authorizations were obtained. Following Creswell (1994), the participants signed a consent form explaining the rationale of the study. They were guaranteed anonymity. Besides, they were informed that they could skip any question which they felt uncomfortable to reply, and they were also informed that they may choose to end the interview at any point in time, despite the signing of the consent form. The interviews were performed over a span of eight weeks. All interviews were recorded. The interviews were first transcribed in Maltese, the language in which they were conducted, and then translated into English. The main themes were then derived from the documented text.

## **FINDINGS AND ANALYSIS**

This section explores the findings deriving from the data analysis according to the main four emerging themes, namely the: integration process, organizational culture, instrumental communication, and synergy realization. The emerging themes represent responses to particular patterns in the data extracted from the transcripts (Braun & Clarke, 2006), and permit the identification, analysis and reporting of patterns in an organized and detailed manner.

### *Integration Process*

In general, the interviewees had a rather negative experience of the integration process. Most of them believed that no importance was given to such process during the negotiations and that it was ultimately not successful.

The participants who experienced Acquisitions A and B expressed different opinions about their experience depending on whether they worked in the target or acquiring organizations. The participants from the target company felt as if they were being treated as guests, or worse, as 'second class' employees by the acquiring company. The participant from the target company in Acquisition B stated that:

"In my opinion when one has an amount of employees who have been transferred through an acquisition, these workers are considered to be as second class in the eyes of the acquirer staff in place – it's because we moved to their place and not they moved to ours."

The participants from the target companies in the acquisition cases also claimed that initially, their notions were not being valued, and they had difficulties in inserting themselves into the new system. This improved as time progressed, although after two years they still believed that there is more room for better integration. Albeit the line of business is of the same nature, they felt that the divergences in work practices made it cumbersome to integrate smoothly into the new environment. This led to an amount of uncertainty and a state of helplessness, where they felt that the human capital aspect during the negotiations was left unnoticed and overlooked. It appears that the integration of employees in the new environment was not planned appropriately. The interviewees coming from the target company of Acquisition A encountered several difficulties even because they had not even visited the new workplace before the business takeover date let alone met their new colleagues. One interviewee emphasized that:



"In our particular case we did not meet our colleagues until the first day of work at the new workplace. We did not know what we were going to find in our new job. The first time I met my new colleagues was on the day of the business take-over."

The participant from the target organization Acquisition B doubted whether a due diligence process had been conducted, as apart from facing problems of uncertainty and insecurity, certain information regarding vacation leave, sick leave benefits, academic certifications and performance appraisals had not been passed to the acquiring company:

"The fact that I was asked to provide my new employer the vacation, sick leave balances and marital status for tax purposes, makes me wonder whether the due-diligence process has been performed in the first place – I think that all this information should have been passed to my new employer beforehand."

Distinctively, the interviewees from the acquiring organizations had different views on the integration process. While they admitted that no efforts were made by the acquiring company to make a successful and effective integration process, they insisted that the level of integration with the new employees had been successful. They believed that employees from the acquiring company had welcomed the new employees from the target company and made them feel at home. One of the acquiring company interviewees, insisted that:

"The employees from the target company were very welcomed by our staff. Through this type of attitude, the new staff felt at ease to integrate swiftly. This was the result of two solid teams. I think the integration went better than I expected."

Participants from Merger A have also indicated the 'guest and host' sensation where employees who have moved offices to one of the merged organizations experienced tougher times integrating with the new colleagues and getting accustomed to the new environment. These findings are in line with research that indicates that the employees of target organization tend to feel more strongly the negative impact of the acquisition than the employees from the acquiring organization (Kavanagh & Ashkanasy, 2006).

In contrast, interviewees from Merge B were positive about the level of integration and the importance given to such process. They claimed that preparations which had to be addressed, including the human capital aspect, had been tackled diligently and appropriately. Consequently, they were convinced that the merger process resulted in a successful integration. They also mentioned that the gradual shifting of staff from one office to the other facilitated the integration. The interviewees also claimed that they did not feel that the 'host and guest' scenario occurred in this particular merge. One of the interviewees of Merge A underlined that:

"The human aspect was given its due significance. Whoever was taking care of the merge was extremely meticulous and even thought of where to place the people in the offices."

### *Organizational Culture*

One of the most common difficulties in M&As stems from cultural differences (Kavanagh & Ashkanasy, 2006). The majority of interviewees underlined that they experienced different organizational cultures between the two companies.

Interviewees who experienced Acquisition A stressed that the aspect of organizational culture was never in the equation prior to the acquisition. This appears to have led to cultural shock. "Culture shocks usually affect the control system included in

the acquired companies and influence the model of integration and management of people" (Remanda, 2016, p.106). On the day of the business takeover, both sets of employees from the target and acquiring companies were surprised at the differences in cultures. The divergences in cultural traits were noticed especially in the organizational goals, policies and procedures, and also in the way the company deals with clients in after sales service and in matters of debtors' payments. One interviewee admitted that:

"There were various divergences especially when it comes to the customers' aspect. Before we used to do our best to accommodate the client in every way even if this construed to take parts from unused machines, but the acquirer's philosophy was to leave the client waiting."

The greatest difference was observed in work practices which were hard to amalgamate. Had this issue been proactively addressed during the negotiations, the operational flow and the transition period would have been much smoother. There was a lack of accountability within the acquirer's work practices, one such example being that the technical department was not being supervised whereas the target company had a dedicated servicing manager deploying and monitoring the performance of the employees. There were also cultural divergences within the administration department, especially in the manner call logging was performed by the acquirer having no adequate visibility of the service incidents being logged. Cultural differences were also sensed within the marketing strategy. Whereas the acquirer had a reliable annual budget for marketing campaigns, the target company did not focus on marketing the brands.

Interviewees from the target companies in both acquisition cases also mentioned that they felt that there was a culture imposition in their regards. Assimilation is one of the main methods through which acculturation takes form, where "the dominant culture of the acquirer exerts a high level of change on the absorbed" (Remanda, 2016, p.105). One of the interviewees also pointed out that:

"The acquirer has imposed certain culture and work practices as they thought that theirs were better than what we used to do when in fact I am... sure that our work practices were far better... This shows power and strength from the acquirer's side."

Kavanagh and Ashkanasy (2006) argue that change carried out through coercion is not likely to be long lasting. Indeed, this attempted domination by the acquirer led to conflict and clashes between the two sets of employees. Different lines of thoughts and ideas were on top of the list; how one perceives the workflow and how it can be best managed. "High level of cultural conflict may cause uncertainty and stress, leading to loss in productivity, low morale and employee turnover" (Bajaj, 2009, p. 231). In the cases under examination, the clashes resulted in the creation of grapevines, with employees congregating in hallways, around corners and by coffee machines passing-on informal information through social interactions. This scenario occurred in both acquisitions and as one of the employees from the target company of Acquisition B highlighted:

"I have witnessed and experienced a couple of clashes between employees attributed to organizational culture differences because various ambiguities were not addressed adequately. What happens after is that employees engage in small groups, forming a grapevine to discuss their concerns which ultimately intensify the situation."

Interviewees from both acquisitions emphasized that they experienced notable differences in hierarchical structures of the target and the acquiring companies. Employees coming from a rather flat structure who had constant contact with the general manager found it difficult to adjust to an organizational structure with a long chain of command. Understandably, the interviewees in low-level structures felt that they were more autonomous and possessed self-direction, contrary to the more management control and close supervision of a vertical hierarchical structure. Fitting in the more hierarchical structure proved very challenging.

In line with the acquisition cases, the interviewees of Merger A experienced considerable difficulties to combine the two cultures. The employees were conscious about this scenario but felt helpless as how to manage it. One of the interviewees said that this could be attributed to the absence of a human resources manager who can build a bridge between the employees and take total control of the employee relations on a holistic level.

With regards to Merger B, the interviewees did not feel that the slightly differing organizational cultures resulted in any notable repercussions. Varying work practices, priorities, values, norms and strategies were sensed but were addressed by the top management through appropriate approaches before and soon after the merge. This gave a sense of belonging, security and serenity within the entire workforce to blend the organizational cultures.

"The way how we used to sell, the filing system and even the up-keep of records, everything changed – work practices changed. There were very few teething problems in the beginning but not conflicts or clashes as everything was taken care of before the merge took place."

This finding is in line with foreign research which shows that the active engagement of management from the beginning of the M&A process is of utmost importance for effective cultural change to occur (Kavanagh & Ashkanasy, 2006, p.583).

#### *Instrumental Communication*

M&As are often associated with high levels of ambiguities and uncertainties, and therefore, communication is a decisive factor to reassure the employees involved. DeNisi and Shin (2005) termed the type of communication during M&As activities intended to provide information such as cutover date, announcements and future plans as "instrumental communication". Lack of adequate communication about crucial aspects of the merger or acquisition is believed to affect badly the employees' trust, commitment and performance (Napier, Simmons & Stratton, 1989). "Initial rumors – even before anything is said officially – may cause employees to worry about job loss, job satisfaction and worker stress because of perceived changes to the organization and its culture" (Giffords & Dina, 2003, p.72). In the cases under examination, most interviews admitted having experienced lack of communication from the top management before the integration process, which left them feeling helpless.

In Acquisition A, both sets of interviewees from the target and acquiring company claimed that no information was given until the eleventh hour, after the financial and legal aspects were already settled. One of the interviewees stated that the fact that they were not consulted or asked to forward their opinions on such a decision meant that they were considered as numbers in an organization, where in the past they had strived to make it successful and a market leader. This point raises the issue of psychological

contract breach, which is known to lead to harmful organizational consequences (Coyle-Shapiro, 2002; Zhao, Wayne, Glibkowski, & Bravo, 2007). It is also important to note that, before the acquisition, the two companies were rivals in the market sector and thus it is understandable that one would take time to digest such new scenario. According to an interviewee:

"Communication, especially in an acquisition is essential and significant. For example, from the target side we were not being informed of what was happening... This has created a lot of uncertainty and insecurity. We had worries and concerns that could not be answered without proper communication."

Similarly, in Acquisition B, the interviewees also experienced a lack of communication and said that they were left in the dark. They expressed the fact that when one is aware that something is going to happen but does not know the details, this creates anxiety and apprehension at the place of work. One of the interviewees highlighted that:

"We are talking here about our future and they did not give us the slightest detail of what is going to happen. Even when we asked direct questions, we did not get direct answers, or at least some sort of information which would give us a direction of what was going to happen."

Interviewees from Merger A had a similarly bad experience with regards to communication. In line with the interviewees in the above mentioned acquisition cases, they complained that they were not informed of what was going on and they discovered about the merger through word of mouth, until it was announced officially some weeks before the merger took place. The interviewees were sure that the information was being withheld instead of being communicated through the right channels. One of the interviewees said:

"Communication is vital and it is the basis of every organization. However, in our case, this was the major flaw as the communication from the top was next to nothing until a few weeks before the merger took place."

As regards to Merger B, the interviewees said that they were being informed of the negotiations on a regular basis. They mentioned that they used to have weekly information sessions about the merger and were even asked to voice their opinions on the best system to be adopted during the amalgamation of resources. One of the interviewees said:

"The communication was good and across the board – we were being informed and updated very regularly on what was happening."

### *Synergy Realization*

"Synergy is the creation of a whole that is greater than the sum of its parts" (French, 2011, p.396). M&As "in theory... 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" (Remanda, 2016, p.100). But what happens in practice? Several interviewees stated that they experienced a negative impact on divergences, and added that in their opinion there were repercussions such as a decline in performance. Nevertheless, the remaining interviewees mentioned positive impacts, benefits from synergy realization and unaffected performances.

Interviewees from Acquisitions A and B expressed mixed feelings about the synergy realization of their respective acquisition venture. Interviewees from the target company of Acquisition A, who stated that the integration process was not successful, were of the opinion that the right synergies have not materialized at least during the initial stages. The divergences in work practices such as more responsibility and accountability towards their job role made it cumbersome in the initial stages of the integration to blend the two workforces together. The fact that they were not used to such lack of monitoring and previously managed through good governance made them feel conscious that after the acquisition things were not being managed appropriately. They stated that when the operations manager coming from the target company was given the nod by the managing director to find the right operational pattern, things started to change towards the right direction even though they took some time to be digested from the acquiring company employees.

Conversely, interviewees from the acquiring company of Acquisition A felt that synergy realization was successful. They believed that the acquisition brought new benefits and had a general positive impact on the employees of the host company. Even though they were conscious that their work practices were not up to standard, they accepted with little resistance to maintain the current shared norms and values, a change management procedure which has been adopted at the initial stages of the integration process. An interviewee said that:

"There were tremendous differences in work practices in relation to staff deployment, the distribution and stocking of spare parts. However, by the time these differences in practices were ironed out gradually and the good practices which the target company brought were implemented as these were thought to be better than those of the acquiring company."

As for Acquisition B, the similarities in the line of business helped to have a relatively smooth synergy realization. The similarities between the companies in markets and products development had a positive impact on the strategic combination with overlapping operations. Nevertheless, synergies are not restricted only to 'economies of sameness' but also to 'economies of fitness', and even if the latter has not been addressed in a proper manner as already mentioned in the findings of corporate culture, interviewees still believe that through their collective effort, the shared synergies between both parties have been realized successfully for the benefit of both parties.

Whilst employees who experienced Merger A stated that although "shared synergies" were mentioned various times before the merger took place, this never materialized, as after eighteen months there was still lack of synergies between the two sets of employees. Particular instances were mentioned in which employees did not communicate with each other face-to-face but through email despite being a few meters away from each other. One of the interviewees stated that:

"After various months we are still working with two different financial systems believe it or not instead of consolidating two systems in one accounting program. This is hindering our accounts flow. Initially, we were told that we will adopt benefits from both companies, but this is not occurring."

The difficulty to merge tasks was reflected in a difficulty to merge socially. Indeed, the two sets of employees were still having their lunch break independently 18 months after the merger.

Contrastingly, interviewees from Merger B were very positive and all for synergy realization. They even stated that the performance has been unaffected and after few weeks it was business as usual. They stated that the most important thing in this amalgamation apart from the integration of the employees was that the customer would be unaffected by the changes which occurred during the transition period. Thus, there had to be a blend of synergies which was at the top of the agenda in order not to disrupt operations and ultimately not to affect customers.

This section presented and analyzed the main findings emanating from the interviews grouped under four main themes. The next section discusses the emerging conclusions and recommendations.

### **CONCLUSIONS AND RECOMMENDATIONS**

This study aimed to explore whether cultural differences between companies during M&As in Malta have an effect on the integration process and whether employees perceive the amalgamation to have been successful. In three out of the four cases examined in this study, the integration processes passed through more or less similar scenarios with rather negative medium-term outcomes. The emerging pattern is consistent with foreign M&As trends discussed earlier in which organizational culture was not given the importance that it merits. Within three from the four researched M&As, the due diligence process tended to concentrate on the three main elements highlighted by Howson (2003), namely the financial, legal and commercial aspects, while insufficient attention was placed on the human capital aspect. It is also relevant to point out that organizational culture emerged as a major factor influencing the success or failure of mergers or acquisitions.

The interviewees stressed the importance of getting employees prepared in all phases before the integration takes place. Factors attributed to organizational 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 frictions and conflicts. It is evident that when the human capital aspect is neglected during the negotiations, the integration of two different cultures is more difficult and takes longer than expected. On the other hand, when these elements have been addressed as in Merger B, the interviewees felt to have gone through a successful integration without major glitches in business continuity.

The interviewees unequivocally agreed that a successful integration depends in large part on the approach taken by the major stakeholders before the business takeover or amalgamation takes place. Particular attention needs to be given to the organizational cultures and the subsequent levels of integration because the greater the level of integration, the higher the degree of assimilation that ultimately affects the emotions and attitudes of employees.

The employees' defense mechanisms referred to by Larsson (1990) have been overlooked by the negotiating teams in at least three out of the four cases investigated in this study. Instead of creating the right environment to communicate in an adequate manner, the negotiating teams failed to transmit the right message. In line with Buono and Bowditch (2003), this created a state of uncertainty and helplessness amongst employees, blurring their future career prospects. When these events occur, individuals

may lose confidence and start looking elsewhere for better job security where they can meet their financial commitments more comfortably. One should here note that employees from the target organizations appear to bear the brunt more than those from the acquirer organizations.

When instrumental communication flowed properly, as in the case of Merger B, employees were mentally prepared to face the merger with serenity. They were psychologically geared through an organized and strategic plan which provided them the necessary job assurance. Importantly, they seem not to have perceived a breach in their psychological contracts.

Whilst it is understandable that the due diligence process has to tackle the risks and benefits of such undertaking by prioritizing the legal, commercial and financial aspects, it is also important to address the human capital aspect of such ventures. Employees make or break an organization, and if they are well motivated, they can increase their level of performance and strive towards a successful integration. However, it is highly unlikely that in circumstances where they are sidelined, they will show the desired commitment towards such ventures. Accordingly, one would recommend that more importance be given to the human capital aspect including organizational culture during the due diligence process (Bajaj, 2009). The involvement of the human resources departments of both companies is vital in order to evaluate and find solutions to bridge the organizational culture gaps, thus paving the way for a successful integration.

The majority of interviewees voiced their apprehension about the lack of communication and information relayed from their organizations. The choice of keeping the deal under the utmost secrecy until the late stages does not help in any way the employees involved. One would expect that once an agreement has been reached, the senior officers start relaying all the pertinent information. Employees cannot be left in the dark. As stated in the European Commission Council Directive 2001/23/EC (EUR-Lex -Access to European Law, 2001) which was transposed in the Maltese legislation entitled Transfer of Business (Protection of Employment) Regulations (Government of Malta, 2003), and Clause 38 (2) of the Employment and Industrial Relations Act (Government of Malta, 2002), employees have to be kept constantly informed of the relevant proceedings. Constant communication is essential during these circumstances.

Team building, and social events also help to integrate both groups of employees before the business takeover or merger date. One could create opportunities for employees to meet outside office hours and start integrating on a personal level rather than meeting for the first time at the place of work. It is also suggested that employees transferring themselves to the acquirer's offices should visit and experience the environment and the relevant culture before the business takeover takes place. This would help them to be more psychologically prepared to start their new venture on the right foot.

"Appointment of a skilled change-management facilitator or champion to lead the change should occur at the start of any merger process" (Kavanagh & Ashkanasy, 2006, p.598). Such person or persons need to facilitate the integration process by 1. Developing the necessary strategies before the business takeover takes place so that employees will be able to deal with the change; 2. Involve employees as much as possible in the process; 3. Understand the emotions employees are going through and manage them in a reassuring manner; and 4. Anticipate expected challenges and communicate accordingly with all employees concerned.

This study emphasized the importance of taking into consideration organizational culture differences from the initial phases of M&As. It shed more light on the role of well-planned strategies and proper communication on the integration process and synergy realization.



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