

Mergers and Corporate Culture

It is widely recognized that cultural differences between the partners of a merger are one of the most common reasons for failure in mergers. This may happen during pre-merger negotiations or during post-merger integration. Despite all Due Diligence, the two partners of a merger fail to form a new successful unit that is able to exploit all synergies.

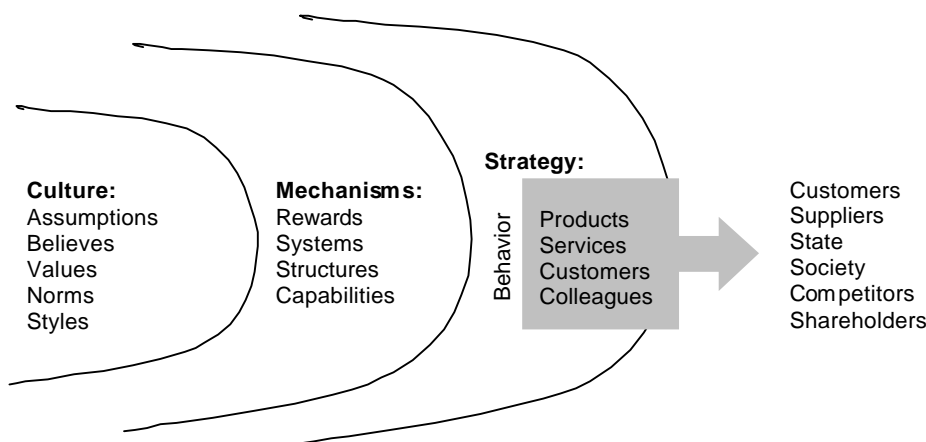
Often, the term 'corporate culture' is used to describe issues like objectives, personal

interests, behaviors etc. Many problems in cooperation and teamwork are blamed to culture. However, in a merger, 'culture' is more than making the people from both partners work together smoothly. The development of a new, shared culture is a critical factor for merger success. It is possible to manage this process in a structured way.

Explaining Corporate Culture

Corporate Culture is embedded deeply in the organization and in the behavior of the people there. It is not necessarily equal to the image the company gives itself in brochures and on the website. Therefore, it is difficult to determine an organization's culture from the

outside. Especially in pre-merger negotiations – when time and confidentiality are critical factors while trust still needs to be established – it can be a challenging task to find out if the cultures of the potential partners fit together.



The Cultural Onion Skin

Corporate culture is determined by a variety of different factors:

- Artifacts
- Management styles
- Norms
- Values
- Beliefs
- Assumptions

The concept of corporate culture is best described by the sentence

The way we do things around here.

There is no one right culture for an organization. There are only cultures that fit more or less to the particular situation of the organization.

In practice, several cultures can exist within one organization. This may more often happen in larger, diversified companies, when some divisions / departments start to develop their own *ways to do things*.

In the result, there are three types of cultural differences

- Cross-national differences (especially in cross-boarder mergers),
- Cross-organizational differences,
- Cross-functional differences.

In practice we can find problems of cultural fit in following areas:

Importance of Corporate Culture in Merger Processes

According to an ATKearney research study, it is a problem in many mergers that the more powerful partner imposes his culture on the less powerful one. This is done without any evaluation which culture would be the more suitable one for the new organization. This approach may lead to a successful merger and integration quickly in some situations. In other situations, however, this approach will destroy much of the value that was expected to grow from the merger. Especially when both partners are very different, it needs a closer evaluation, which culture will be best for both together.

Why is corporate culture that important?

Corporate culture influences the performance of an organization, since it determines

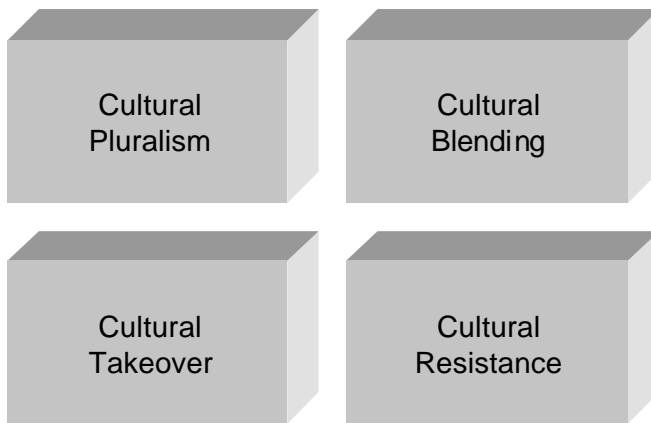
- Organizational values
- Management culture and leadership styles
- Organizational myths and stories
- Organizational taboos, rituals
- Cultural symbols

Cultural problems can develop unexpected dynamics in such situations:

1. Realization of differences
2. Stressing and evaluation of differences
3. Mutual stereotyping
4. Mutual blaming
5. Battle for cultural dominance

- The way the organization tackles problems and questions
- Peoples' attitude to changes
- The way people interact with each other
- The way the organization interacts with stakeholders
- Peoples' commitment to strategy

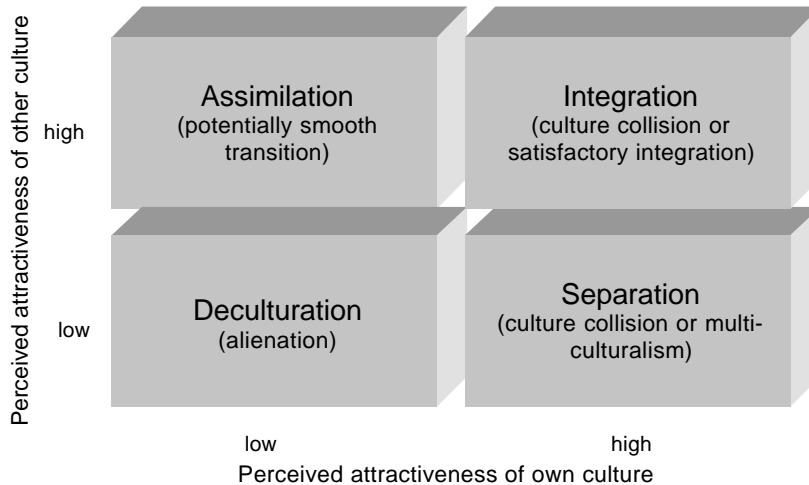
A perfect integration (which is rarely achieved in practice) would develop a new culture form both former cultures of the partners. Ideally, this new culture should include the best elements from both organizations. Reality often looks different. We can distinguish the following types of cultural integration:



Cultural pluralism and cultural blending do not work in most cases. The results are cultural resistance followed by a cultural takeover.

The problem in mergers is that people from very different organizations (and cultures) are

expected to work together, to discuss, and to solve complex strategic and operative tasks. It is very difficult to impose a new culture that does not have the acceptance of the people. This perceived attractiveness of cultures can have the following impact on the integration process:



Cultural Analysis

The cultural analysis is a tool for identification and overcoming of cultural differences between partners in mergers. A detailed analysis shows differences and common

grounds between the people of both organizations. Thus, it allows improving interaction and communication.

| Characteristics of Culture | Perception of other Organization | | Own Perception | |
|-------------------------------------|----------------------------------|-----------------------------|----------------|---|
| | True | False | True | False |
| Democratic | | | | |
| Bureaucratic | | | | |
| Authoritarian | | | | |
| Open for changes | | | | |
| Traditional | | | | |
| Responsible for people | | | | |
| Team-orientated, cooperative | | | | |
| Hierarchical | | | | |
| Transparent processes on all levels | | | | |
| International Focus | | | | |
| Egoism of departments | | | | |
| Long-term orientation | | | | |
| Answers from organization A | | Answers from Organization B | | Difference: Potential cultural problems |

Example for cultural analysis for identification of cultural differences

This analysis can be performed by comparing both partners' perceptions of various features of corporate culture. The difference in perceptions of particular characteristics of cultures indicates potential conflicts.

can develop. The name of the new organization may take a key role in this process. The new name is a symbol for the changes that come along with the merger, and it indicates how much both old companies contribute to the new one.

Another important step is the establishment of a new cultural basis on which the new culture

| Old Company 1 | Old Company 2 | Name of the new Organization |
|----------------------------|------------------------|------------------------------|
| Traveler's | Citicorp | Citigroup |
| Daimler-Benz | Crysler | Daimler-Chrysler |
| Grand Metropolitan | Guinness | Diageo |
| Hoechst | Rhone-Poulenc | Aventis |
| James River Corp. | Fort Howard | Fort James |
| Arthur Andersen Consulting | - | Accenture |
| Ciba-Geigy | Sandoz | Novartis |
| SmithKline Beckman | Beecham | SmithKline Beecham |
| Union Bank of Switzerland | Swiss Bank Corporation | United Bank of Switzerland |
| Coopers & Lybrand | Price Waterhouse | PricewaterhouseCoopers |

Examples for changes in company names in mergers

Moreover, it is necessary to harmonize and to communicate all other elements that influence culture, e.g. reward systems, systems for performance measurement. Organizations that

want to integrate both old cultures have to take care that no partner gets advantages or disadvantages. In order to avoid the backwards looking 'us vs. them'-thinking, it is

advisable to form new teams with people from both organizations. Practical experience has shown that at least 25% of staff should be allocated to new / other teams. Only then, everybody will realize that inevitable changes are on their way.

Other approaches to avoid cultural problems:

- Newsletters and hotlines
- Realistic predictions of development, milestones and outcomes of the merger
- Workshops
- Surveys, questionnaires and feedback analysis

- Integration teams
- Building of new teams
- Mutual evaluation in and between mixed teams

In summary, the rules for cultural implementation of a merger is as follows:

To impose an unwanted culture is a good solution in very few cases.

Integrating cultures are much harder to achieve; however, in the long term they promise much better results.

Checklist „Mergers and Corporate Culture“

- Develop a strategy for cultural integration already in pre-merger phase. Decide if you want to go on with one of the existing cultures or if you prefer an integration culture.
- Analyze and describe the existing cultures. Differences and common elements of both cultures show up only in direct comparison. Thus, you can also identify cultural barriers, differences in communication and other potential problems.
- Decide which role the new culture shall play in the merged organization. Determine, why you decide for a particular culture and what you want to achieve with it.
- Establish 'bridges' between both companies. In order to achieve mutual understanding, there is nothing better than cooperation.
- Establish a basis and mechanisms for the new culture. This includes a supporting system of rewards and sanctions.
- Be patient People take time to be acquainted to a new cultural reality.