

# Chapter 5

## Cultural Integration in Mergers and Acquisitions

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### ABSTRACT

*Mergers and acquisitions (M&As) are recognized as one of the most popular corporate strategies in recent years. Unlike its popularity, the success rate of mergers and acquisitions is surprisingly low. There are many reasons for failure, but among all, culture integration has emerged as one of the major barriers to an effective merger and acquisition deal. This chapter highlights the fundamentals of this topic with literature review and presents practical and effective guidelines for facilitating cultural integration in merger and acquisition process effectively and efficiently and achieving greater results from the organizational change efforts.*

### INTRODUCTION

The 21<sup>st</sup> century was driven by new technologies and scientific breakthroughs, innovation and relentless competition. In such a complex business environment, corporate growth represents a key requirement for business success. Despite improved economic conditions in recent years, many corporations are finding it difficult to satisfy their growth expectations and keep their competitive advantage at a desired level. At this point, mergers and acquisitions have become a popular alternative pathway to organic growth promising a multitude of strategic opportunities and an edge that their peers will struggle to replicate. Mergers and acquisitions take place for many strategic business reasons, but the most common reasons for any business combination are economic at their core; improving efficiencies and creating synergy, easy market entry, diversification, cost/risk reduction, to mention just a few.

Mergers and acquisitions tend to be extremely well discussed in literature and planned in terms of financial, strategic and legal aspects in practice. However, research findings show that the risk of failure- fail to achieve the intended goal- is high or in some cases far greater than the chance of success (Christofferson et al., 2004). Merger and acquisition failures can be attributed to a variety of causes. Some are lack of clarity and execution of the integration process, over paying, negotiations errors, but most

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unsuccessful outcomes are related to soft issues- people side of merger and acquisition, which is often ignored by top-level management. “Incompatible cultures”, “incongruent cultural fit” and “misalignment between the two organizations’ cultures” are coming in at number one among all. Countless studies demonstrate the link between culture differences and deal failure (e.g., Gomes et al., 2011). Without any doubt, the way the corporate cultures are handled in each phase of merger and acquisition process is crucial to its outcome. More attention and efforts should be spent to evaluate the organizational culture fit properly before going ahead with the transaction in order to increase its rate of success (Appelbaum et al., 2007). The importance of cultural fit for the overall outcome of merger and acquisition integration is at the center of the scientific debate about the impact of corporate culture on the performance of mergers and acquisitions (Santo, 2013).

HR practices, communication, leadership, and management styles, corporate strategies, and many more variables have either direct impact on culture integration in mergers and acquisitions or significantly related to the topic; therefore, culture integration is complex, multifaceted, and incomprehensible, thus change management teams should use well-developed toolkits and strategies for managing the cultural aspects of a deal and be prepared beforehand.

This chapter contributes to change management discipline by providing a framework designed to help executives to manage the integration process successfully throughout the M&A lifecycle and reach the desired outcome in a fast way. This framework presents culture assessment –mainly cultural due diligence- and communication as a crucial component to reducing poor culture-fit as a barrier to M&A success.

This chapter is both important and timely, as it sets the conceptual tone by providing change leaders, practitioners, and scholars a powerful framework for understanding the human side of the change process dynamics, specifically the complexities of cultural integration, and introducing solutions to minimize the relevant risks and obstacles. Finally, a positive consequence of this chapter is the source it can provide for future research.

## **BACKGROUND**

### **Corporate Culture**

Although, the term of “culture” first appeared in the Oxford English Dictionary around 1430, Hawthorne studies in 1930s marked the first systematic attempt to use a concept of culture to understand the work environment. Today, corporate culture has developed tremendously. It has a multidisciplinary foundation in the fields of organizational theory, management, anthropology, and other organizational studies and still attracts significant scholarly attention.

Many researchers have devoted numerous articles to the nature and definitions of culture; however, Schein’s view of culture, more than any other view, was widely adopted by researchers in organizational studies. The most common accepted formal definition is- *“A pattern of shared basic assumptions that the group learned 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 you perceive, think, and feel in relation to those problems”*. Schein’s organizational culture model (1980) divides organizational culture into three levels: artifacts (visible), espoused beliefs and values (may appear through surveys) and basic underlying assumptions (unconscious taken for granted beliefs and values). Other definitions are according to Rousseau (2000) corporate culture is a set of commonly

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