

ENVIRONMENTAL AND ORGANIZATIONAL FACTORS OF MERGERS AND ACQUISITIONS

Acculturation as a Cultural Change Process

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SUMMARY

First a cultural change model was demonstrated, which tried to focus on both internal and external factors, which could have influence on cultural changes in organizations. There was no intention at all to provide formula for cultural change rather to introduce the elements, which can play important role in the change process.

Further on the notion of mergers and acquisitions were introduced and a distinction was made. Different dimensions of the acculturation process were shown which are believed to be crucial to the success of any M&A process.

A strategic approach was put forward to emphasize the different organizational cultural perspectives, which are key factors to achieve cultural synergy between the two (or more) organizational cultures.

Many scholars have dealt with the change of organizational culture. Almost all agreed at least on one condition in the change process, namely the first step. The current culture has to be analyzed in order to change. Less agreement can be found on the factors, which might influence the change process. However these factors are just as important as the diagnosing process itself.

The model of cultural change is based primarily on a research, which has been carried out in Hungary. [1] However the influencing factors it defines are more universal.

The phenomenon of acculturation is introduced as well. The merge or acquisition process is a specific form of

cultural change. Therefore, first the cultural change model is dealt with and further on the environmental and organizational aspects of the acculturation process is introduced.

THE MODEL OF CULTURAL CHANGE

The factors influencing cultural change are shown in the following figure. It is not the intention of this study to differentiate between the intensity of these factors in the change process.

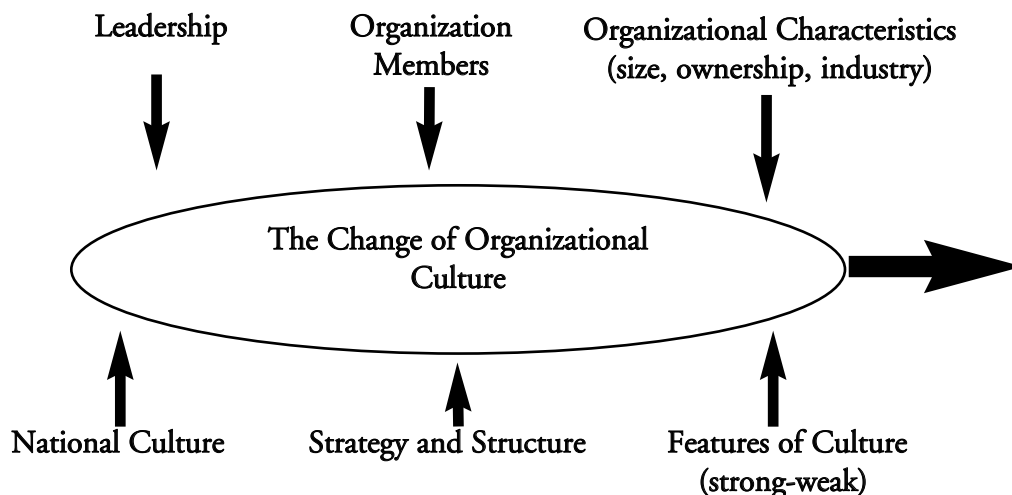


Figure 1.

THE INFLUENCING FACTORS OF CULTURAL CHANGE

LEADERSHIP

The role of the leader has a determinant influence in creating and changing corporate culture. This is achieved by defining behavioral norms and decision-making methods and through decisions influencing the value system.

Studies examining the role of the leader conclude the significant impact of the leader in shaping corporate culture. Schein and also Nahavandi and Malekzadeh noticed a cultural creator role of the leader, when founding an organization. [2][3]

Schein criteria, which measure, whether the leader really had a definite impact on the culture, are the following:

1. His/her visions were shared unanimously.
2. His/her impact had stayed vital after the organization's size had increased.

In the concept which I will use further on, the role of the leader is determinant in the creation of culture. Cultural establishments, laid down by the leader, very often outlast the person. However, success stories are needed to validate the culture. These success stories are built in the value system of the organization, to have something to lean on in time of crisis and problems.

A long lasting culture strongly determines what kind of leaders will be accepted in the future. A strong culture rejects leaders and organization members who do not fit the culture. However, if the culture should come to a crisis in its own self-development, a cultural leader is needed who is able to change the basics of cultural features and elements of the value system. This situation calls for a transformational leader. For cultural changes of this kind a charismatic person is needed, who is able to recruit followers by representing the values of the visionary culture, with help of his/her personal characteristics and leadership abilities.

Possible means for changing organizational culture are the following, (not distinguishing the mechanisms of founding and changing):

1. Role models

Founders and leaders are behavioral idols in the eyes of the members of the organization. They serve as a role model for them. The declared culture is approved by their actions and behavior on a daily basis and thus becoming beliefs shared by everybody.

2. Decisions directly influencing the value system

Here I refer to those decisions, which can serve as guidelines for the members of the organization, such as the *reward system and personnel recruitment*. Both devices are important in case of founding and changing the culture of the organization. These devices have a less direct influence than the one mentioned above, though they have the same

level of impact. On the other hand, whereas the leader as a role model can only influence the culture passively, with the use of these devices the leader is able to actively guide the norms and shared values into the direction (s)he desires. The role of personal characteristics is also essential here, which is even unintentionally enforced by him/her in personnel recruitment.

3. The methods of decision-making

The way decisions are made by the leadership has a long lasting effect on the operation of the organization. This applies for any stage of cultural development. The ways of decision-making could be defined as expectations, but can be generally expected methods to follow as well. Their importance could be traced when methods outlast the leader and within changing environmental conditions can serve as support or as impending factors in decision making.

Included here are decisions regarding the change of strategy and structure, which similarly influence the shaping of culture. Because of the interdependence of strategy, structure and culture, the influence on culture is present here as well, however less obviously than above.

ORGANIZATIONAL CHARACTERISTICS

The ownership structure, size of the organization and the given branch of industry all play a major role in the transition of the organizational culture. Shared values of the organization are often undermined by external economic and social influences.

When the results of the above mentioned study were evaluated, the companies were grouped according to the three aspects included in the hypothesis:

- Organizational size (number of employees)
- Ownership and
- Branch of industry (production or service oriented)

ORGANIZATION MEMBERS

The organization members of any corporation are the ones who really suffer from changes and also they are the ones who put the ideas into action. In the short run they are unchangeable factors of the change process. In the longer run there is possibility for the change their attitudes and way of thinking – as central elements of any cultural change – but in a short term it is wiser to analyze the members' willingness for change. (Those ones without any willingness to change should be replaced in the longer run of course.) The employees as the human resources of the organization very much determinate the direction of change with their skills, abilities and motivation potentials.

The proper shaping and stabilizing of the shared values in an organization must play a key role in any kind of program aimed at changing cultural values. *The company has to provide the stable organizational values as a reference point, which serves as a guideline for the employees in uncertain situations and in problem solving.*

STRATEGY AND STRUCTURE

The long known interdependence of strategy-structure-culture makes the strategy of any organization a determinant factor in a cultural change of any kind. The cultural change process is very often developed as a side factor to the overall strategic change program. Either ways, it is certain that, just as in case of structure, culture cannot be managed separately from the strategy of any time. It is unrealistic to expect organization members to follow new mission and goal alongside with the old values and beliefs. When dreaming the "strategic dream" the cultural blanket should be really considered. The organization should fit the culturally defined blanket unless the dream will become a strategic nightmare. The best way to manage the two factors simultaneously and not in a sequential way. Strategy must be consistent to culture and vice versa.

The relation between structures and cultures are also long known. It is not the objective of this study to deal with the cultures created by the different structural forms and also with cultures that rejects certain structures. The change of organizational structure immediately initiates changes in culture. New departments are born, old ones are dying, and thus new grouping of people is constructed. Within the new structure organization members have to find new ways of communication and communicate and interact with different people. That necessarily leads to changes in culture.

THE FEATURES OF CULTURE

The apparent contradiction between strong cultures and the change of organizational culture can be solved. It is possible for a strong culture to be formed that is friendly to change, and whose fundamental value is the ability to change.

- Importantly the distinction between strong and weak culture is not a qualitative one. It depends highly on organizations and the environment.

The approaches mentioned above measure strength according to one dimension. The question can be easily translated to a more complex environment. Organizational culture must be examined in its business and social embeddedness. This refines the issue and further shapes the question.

The stage of the change process in which the organization is and what methods have been used to support the change process also matter. Besides the causes of organizational history, market position in the given business and the development tendencies of the country have a strong influence on the organization.

What is important for the leadership is that *the presence of strong culture does not mean its unchangeability*.

- *If the central values – except those to be radically changed – are properly managed, they can even serve as supporters for change. A smart leader has the opportunity to use these basic values and beliefs as a commonly shared and accepted starting point, and build a program of incremental change on it.*

- *Many companies have the advantage of possessing a culture in which of change and the ability to change are central values.*

Most of the time this is the result of their corporate history, since companies that were never market leader were forced to adopt follower strategies. This market behavior planted the openness and ability to change into their culture. And even nowadays when many of them are market leaders, one of their competitive advantages is this ability which enables them to react more quickly to market changes.

- *The task of the leadership is to stand clearly for the continuity of the values not hindering change, thus encouraging change in those resistant to change.*

Emphasizing the positive values of the past makes changes easier in other fields as well. Thus the culture does not lose its strength and the ability to change can be built in. To achieve this ideal situation, a sequence of leadership interventions and fine-tuning are necessary.

- *Strong culture therefore is not necessarily the obstacle for changes, even when it contains many and intensely shared assumptions and values.*

If the leader succeeds in building sensitivity and ability to change into the central elements of the value system, the culture can be transformed into one friendly to change. Change friendly organizations with strong cultures are better off than the less homogenous ones.

NATIONAL CULTURAL BACKGROUND

The result of organizational development programs is derived from two sources. Besides the defined organizational objectives, the influence of national cultural background is also important. These two can have opposite influences on the organization.

A twofold impact is seen in the implementation of organizational change and development programs. The well-defined objectives and activity plans of top management work from top to bottom. National culture works the opposite direction, from bottom up. This national cultural background is one of the obstacles to organizational changes in Hungary.

THE NOTION OF ACCULTURATION AND ITS ENVIRONMENTAL FACTORS

The notion of acculturation has been long used by anthropology, psychology and cross-cultural management. Acculturation is the process "by which two or more cultures come in contact and resolve the conflict that arises as a result of this contact." [3]

Every organization goes through the process of acculturation, which merges with another one. Four factors are influencing the acculturation process:

- Culture
- Strategy
- Structure
- Leadership

Morosini [4] widens the framework of the acculturation process and its operational conditions. It is not only a management task, but the roots of national culture play an equally important role in the M&A process. The social environment in which the organization operates has a determinative influence on the methods-in-use. Therefore, beside the obvious internal and external factors, social embeddedness of the organization must be considered to thoroughly understand its market behavior and the role of cultural values in the process.

The organizations social components include such aspects as>

- How company executes complex coordination functions involving both internal and external resources?
- How it develops critical networks and learns within its community?
- How its people communicate and collectively foster a social sense of identity? [4]

The importance of these skills increases, when resources must be coordinated in M&As within diverse national cultural framework. This knowledge is almost impossible to copy by competitors, it can only be gained through experience. Its uniqueness is derived from the co-ordination mechanisms, which operate in diverse cultural barriers, and are only valid within a holistic perspective. This includes the knowledge itself and is surrounded by cultural symbols, metaphors and norms. All this is captured by the notion of the Greek expression called *gnosis*. In case of companies, this *gnosis* provides the pragmatic skills and knowledge, which every firm has to possess to stand the fierce competition and the cultural environment, in which the firm experienced under which conditions the knowledge works. This *gnosis* cannot be benchmarked it must be learned the hard way. (It is not coincidental that companies with decades of international operational experiences seem to face less cross-cultural problems than their Japanese and Korean competitors.)

The internal and external condition of acculturation is summarized on Figure 2.

QUESTIONS REGARDING CULTURAL ASPECTS OF M&AS

MERGERS AND/OR ACQUISITIONS?

Though mergers and acquisitions are dealt simultaneously by scholars, no one argues that it is indifferent from a cultural perspective that a firm is acquired from a power position or firms of relatively equal market share or capital background are merging.

Vaara for example excludes acquisitions from the scope of the research. He defines merger as “a combination of organizations of fairly similar size, which creates and organization where neither party can clearly be seen as the acquirer.” [5] However business practice very often provides examples where a formerly announced merger turns out to be an acquisition... (E.g. the worldwide celebrated marriage of Daimler-Benz and Chrysler)

The clear distinction of mergers and acquisitions is required by legal aspects as well. They are not quite identical phenomena, since they result from two legally different transactions. A merger is a statutory combination of two (or more) companies, either by the transfer of all assets to one surviving company or by joining together of the two firms into a single new enterprise. Therefore, mergers are-at least in principle-cooperative agreements between equal partners, especially, of course, if an entirely new organization is formed.

In contrast acquisition takes place, when one company buys enough shares to gain control of another. It maybe defined as friendly, hostile, according to the way it is perceived by the shareholders and the management of the company being acquired. The formal distribution of power is clearer than in the merger case. [6]

In spite of all the financial, strategic, legal and cultural differences between mergers and acquisitions, literature on the topic most of the time uses the term M&A without making a clear distinction.

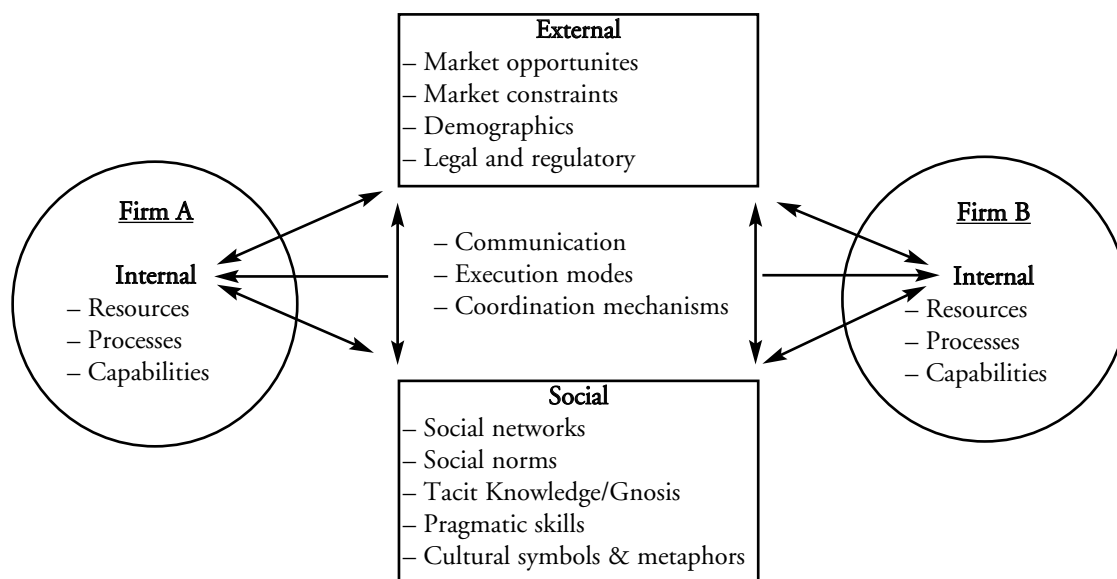


Figure 2. Conditioning factors in an M&A Morosini, 1998, p.27

DOUBLE ACCULTURATION

Based on experimental research many scholars argued that cross-border dimensions of M&As are further management challenge. [4][6][7]

It is interesting to note however that British and American scholars pay less attention to problems of cross-border co-operations. Many of them simply ignore these conflicts and problems or consider it overemphasized. In their point of view these transactions are still conflicts and collaborations of organizational cultures. Nahavandi and Malekzadeh acknowledge the existence of the two levels (i.e. the national cultural and the organizational cultural) and terms the process as "double acculturation." However, in their framework M&As are more considered problems of leadership and organizational culture than clash of national cultural backgrounds. [3]

This cultural blindness of the scholars from UK and USA is due to historical and geographical reasons. [8]

An interesting phenomena occurs, when examining the results of cross-border corporate M&As. International transactions of this kind tend to be more successful synergy wise. Partners involved in such process are more aware of

the possible challenges and conflicts than in domestic M&As due to their cultural openness and sensibility. Merging of two organizational cultures of similar kind in a domestic relation tend to be less successful, than the well prepared cross-border transactions. [9][10]

The Organizational Cultural Perspectives

When analyzing merging organizational cultures a significant difference can be traced. Three perspectives were defined by Martin, namely integration, differentiation and fragmentation. [11] Characteristics of the three perspective are shown on table 1.

In analyzing M&A processes representatives of the in integration perspective focus on the differences of the organizational cultures. Therefore the acculturation process is seen as the integration of two cultures. The more intact cultures are the harder is to change those. [12]

In spite of this, when dealing with acculturation the differentiation and the fragmentation perspective focus on the creation of a new organizational culture. These approaches are more strategic oriented and provide more possibility for synergistic solutions.

Defining Characteristics Of The Three Perspectives

Table 1.

Perspective	Integration	Differentiation	Fragmentation
<i>Orientation to consensus</i>	Organization-wide consensus	Subcultural consensus	Multiplicity of views (no consensus)
<i>Relation among manifestations</i>	Consistency	Inconsistency	Complexity (not clearly consistent or inconsistent)
<i>Orientation to ambiguity</i>	Exclude it	Channel it outside subcultures	Focus on it
<i>Metaphors</i>	Clearing in jungle, monolith, hologram	Islands of clarity in sea of ambiguity	Web, jungle

Martin, J.: Cultures In Organizations. The Three Perspectives (p 13. 1992)

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Resümee

Der Artikel forscht den akkulturellen Prozess in dem Hinsicht der Veränderung der Organisation Kultur. Erste mal wurde ein auf empirischen Forschung beruhene Modell für die Veränderung der Kultur demonstriert. Alle Faktoren des Modells wirken auf die Veränderung der Organisation Kultur, obwohl nicht gleichzeitig und nicht in gleichem Masse. Die Wirkungs Faktoren sind die Leitung, die Mitgliedschaft, die Charakteristik der Organisation, die Nationalkultur, die Strategie und die Struktur und die Parameter der Organisation Kultur. Der Autor demonstriert den Begriff des akkulturellen Prozesses als ein typische veränderungs Prozess, sowie kulturische Fragen, die bei der Verschmelzung und bei dem Aufkaufen (M&A) entstehen können. Die Wirkung der Nationalkultur in dem akkulturellen Prozess ist bedeutend. Schliesslich erscheint sich die Bestrebung auf die kulturelle Synergie als eine strategische Frage.

Összefoglaló

A cikk az akkulturáció folyamatát a szervezeti kultúra változása szemszögéből vizsgálja. Először egy empirikus kutatáson alapuló kultúráváltási modellt mutat be. A modell tényezői mind hatnak a szervezet kultúrájának változására, bár nem egyszerre és nem egyforma mértékben. A ható tényezők a vezetés, a szervezeti tagság, a szervezeti karakterisztika, a nemzeti kultúra, stratégia és struktúra és a szervezeti kultúra jellemzői.

Az egyik jellegzetes kultúráváltási folyamatként a szerző bemutatja az akkulturáció fogalmát, valamint az összeolvadásokban és felvásárlásoknál (M&A) felmerülő kulturális kérdéseket. A nemzeti kultúra hatása az akkulturációs folyamatra jelentős. Végül megjelenik a kulturális szinergiára törekvés, mint stratégiai kérdés.

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