

## Corporate cultures integration in the mergers and acquisitions process: A review

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### Abstract

Integration processes during Mergers and Acquisitions (M&A) phases are very complex and challenging tasks. Managing such a situation poorly would cause negative impacts lasting several years. This is assessed in the decreased on both human resources and operational outcomes. Therefore, to manage the process of the integration in the M&A phases efficiently, key executives engaged with M&A have to consider not only the short-term consequences of a crisis management, but also the unintended consequences for employee attitudes and behaviors that usually negatives during changes. Based on the extensive investigation of related literature in the context of M&A and semi structured interview with key executives experienced with M&A process, corporate cultures integration has been identified as one of the critical factors in the success and failure of M&A exercises.

**Keywords:** mergers and acquisitions, corporate cultures, integration, performance

### 1. Introduction

Mergers and Acquisitions (M&A) is one of the corporate strategies for companies to achieve better performance and possibly making profit. However, it have been reported that many companies fail to meet the expected synergy value and it takes longer time to achieve better performance. Based on KPMG study in India on 750 M&A deals between 2005 to 2011, three-fourths of the acquisitions have failed to create substantial value from the deals and 59% of the acquirers have actually destroyed value within a year of closing a deal <sup>[1]</sup>. Moreover, a separate study by A.T Kearney concluded that total returns on M&A were negative <sup>[2]</sup>.

Hence, emergence of research interests has been conducted to investigate the factor of success and reason of why M&A often fail, but it was ending up with conflicting findings <sup>[3, 4, 5]</sup>. Corporate strategy like M&A is very complex and challenging process as it involved major changes from many aspects including management of employees. Its effects on employees through this trying time are critical and significantly influences the adoption of a new culture, the change process itself, and the level of stress employees can experience <sup>[6, 7, 8, 5]</sup>. There is increasing evidence that cultural clashes are the main reason of poor performance as well as time-consuming conflicts in the integration of two or more companies <sup>[7, 9, 10, 8, 4, 5]</sup>. However, according to <sup>[7]</sup> many of M&A have only been evaluated based on their compatibility regarding financial figures, technological advantages, or market share, very few had focused on the soft or intangible M&A issues <sup>[4]</sup>.

### 2. Previous studies of Corporate Culture in M&A

For the past three decades, there has been growing of research interests identifying the variables that affect the success of M&A activities. However, the key factors for success, and the reasons why M&A often fail, remain poorly understood <sup>[4]</sup>. There are many researches has been examining the relationship of corporate culture and its influence to M&A success and failure such as in European chemical industry <sup>[11]</sup> and in USA <sup>[12]</sup> that investigated the perceived cultural

compatibility index. Researchers <sup>[12]</sup> have done a larger assessment of human resource and strategy issues resulting from a series of acquisitions at a large distribution firm in the southwestern USA. All employees, across five sites were asked to complete a survey on the firm's premises during normal working hours with an objective to strengthen the validity of the Perceived Cultural Compatibility (PCC) index <sup>[13]</sup> to help managers manage M&A more effectively. The results show evidence of a second-order factor model for perceived cultural compatibility rather than the single factor view of culture offered <sup>[13]</sup>. Another research <sup>[11]</sup> was based on 32 interviews with senior managers of 16 M&A deals in the chemical industry. The study found that culture differences between the merged companies are a key element affecting effectiveness of the integration process and consequently the success of M&As. All of these studies revealed positive relationship of organisational culture and performance of companies that have experience M&A exercises.

### 3. Reasons of Failure in M&A

Furthermore, researches indicate that people issues occur in several phases of M&A activity, specifically, in the integration phase of M&A and can affect performance <sup>[14, 8, 15]</sup>. Many researchers have argued that corporate cultures conflict is the primary reason contributed in M&A failure <sup>[7, 16, 17, 4, 8, 18]</sup>. These are supported by other authors <sup>[17, 4]</sup> that argued culture clashes, gaps, or incompatibilities during integration phase are the most frequent reasons of M&A failure.

In general, corporate culture issues occur in the integration and post-M&A phase due to several factors including clashes of corporate cultures between two or more companies, internal conflicts among employees are not well managed and lack of management skills in dealing with cultures issues <sup>[18]</sup>. Moreover, <sup>[18]</sup> added that employees feel a deep psychological change when their duties, responsibilities, colleagues, and physical surroundings are no longer as they were prior to the M&A as it involves integration that requires disassemble of two or more of old relationship's structures to create a new

one. Thus, the literature on social capital can thus help explain some of the sociocultural problems often observed in M&As. Even there are differences perceptions of social capital, they all seem to agree on the basic belief of social capital as the “glue that holds societies together” [19, 20, 8, 4]. The concept of social capital seems critical in explaining the process of cultural integration in M&As as it exists in the structure of relationships [20, 8]. Therefore, the task of cultural assessment and integration are so vital and become continuous process that supports the whole M&A [7, 11, 9, 8, 4] as the most crucial tasks is the combination of the two or more workforces into one. Hence, the integration of corporate cultures of the two or more companies could improve performance. It is believed that corporate culture integration has a positive and significant effect on organisational performance in ensuring M&A success as most of the global changes like M&A have impacted the human behaviour in the organisation.

#### 4. The Importance of Corporate Culture

Corporate culture has been recognized by researchers as playing critical role in both business strategy implementation [21, 22, 18] and human capital relations [23, 24]. Researchers have indicated that corporate culture affects strategy implementation and is a source of sustainable competitive advantage [25, 26, 27]. Further, researchers have shown that the perceptions of corporate culture influence employees’ intentions to stay with an organisation [26, 15] especially in acquiring companies.

According to [28] culture is trickier to define, as well as to analyze. Moreover, culture has been largely ignored in economics for decades, but things are starting to change when economists have begun to assess the effect of culture on economic activities that used conceptions of culture such as the “customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation” [29]. When organisations merge and acquire, employees are integrated in newly formed culture develops. This new culture is hoped to be a culture that is valuable, productive, and in alignment with the purpose for integrating organisations. However, the evidence shows the newly corporate organisation may get stuck in building culture values due to factors such as longer term integration process and overlook the new resultant cultures as management team are busy with other tasks regarding financial and technological matters [4]. When this occurs, the employees’ attitudes and behaviors usually negative towards change as their duties and responsibilities are no longer same. This may lead to culture conflict and the loss of talented employees’ increases if the integration process is not well managed [15]. The corporate culture becomes unproductive resulting in a critical barrier to M&A success.

#### 5. Conclusion

Therefore, to manage the process of the integration in the M&A phases efficiently, companies should put their best people in charge of implementing M&A deals. More emphasis needs to be placed during the planning stage of the integration process. It is believed that cultural integration is one of the most important activities in each phase for successful M&A integration. Earlier strategic pre-M&A planning with culture as a key role of integration process and the creation of a positive environment are likely to contribute to M&A success

before initiate any actual integration of human and physical assets.

#### 6. Acknowledgment

The researchers would like to express sincere appreciation and thank to Ministry of Higher Education for the MyBrain15 scholarship which provides financial support for the related research.

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