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- MANAGING CULTURAL CHANGE IN INTERNATIONAL MERGERS & ACQUISITIONS – An Innovative Integrated Model of Cultural Change

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Abstract

Yet international mergers and acquisitions are even more difficult than purely domestic ones. If firms expand beyond their national borders, they also have to cope with a different cultural environment, and the proper management of the cultural challenges arising in cross-border M&As is of growing importance for M&A performance. This study therefore analyzes the **role of culture** in the **integration process** of **international mergers** and **acquisitions**, identifies and discusses the manifestations of cross-national cultural differences in the international M&A context at various levels, and develops frameworks for the management of a cultural change process in international M&As. Based on the empirical analysis of nine international mergers and acquisitions and one international consortium, the challenges occurring during the integration process, particularly those that are due to the cross-cultural environment, will be highlighted. In addition, based on the results of the empirical research,

frameworks for the management of a cultural change process will be developed. The proposed model seeks to integrate strategic, organizational and cultural factors into one coherent process perspective.

1 Introduction

Currently, almost all industries seem to be experiencing a high number of mergers and acquisitions (M&As), many of them taking place across borders. Examples are the recent M&A activities in the automotive, chemical, pharmaceutical, financial services, aerospace and defense industries [Kreuz and Diedrichs, 1998]. Constantly changing market conditions, increasing pressure to be efficient, consolidating domestic markets, and dynamic technological developments are some of the critical factors forcing ever more companies to increase their size and to pursue activities outside their home markets by merging with or acquiring other businesses [Stüdlein, 1997; Peske and Schrank, 2000]. However, many companies lack the resources required to meet these challenges and to grow organically. Of the several strategic alternatives available, a growing number of firms are choosing a merger or acquisition as an option to overcome resource constraints and to achieve a preferred strategic position [Buono and Bowditch, 1989; Cartwright and Cooper, 1997].

If properly managed, mergers and acquisitions have the potential to transform organizations and to enhance their competitive position [Haspelagh and Jemison, 1991]. They are "one of the most important triggers for strategic renewal... . If acquisitions are well managed, they offer a high potential for value creation and for building a sustainable competitive advantage... . On the other hand, mismanaging acquisitions can prove one of the most costly affairs conceivable for a firm." [Deiser, 1994].

The total value of cross-border mergers and acquisitions has risen significantly, and it is estimated that the number and value of international mergers and acquisitions will increase even further. According to a recent global survey, 67% of all automotive companies, 61% of all machinery and construction companies and 55% of all companies in the pharmaceutical and chemical industries are planning a merger or acquisition [Kreuz and Diedrichs, 1998].

Many existing studies analyzing the integration process following international merger and acquisition activities still predominantly deal with the strategic and organizational fit between the organizations involved. Thus they do not take sufficient account of the cultural differences between countries [e.g. Morosini and Harbir, 1994].

A standardized hypothesis-based questionnaire was used for the nine interviews with CEOs and senior managers of corporations involved in M&As, as well as for the interview with Airbus Industrie. The questionnaire was slightly adjusted for Airbus Industrie to take into consideration the specific circumstances of a consortium (Table 1).

Company	Object of study
Airbus Industrie*	The management of cultural issues in a large international consortium set up by four different European companies
Avon Rubber	Avon Rubber's (UK) acquisitions, particularly in the Czech Republic
BASF	BASF's (G) acquisition of Boots Pharmaceutical (UK)
European Vinyls Corporation EVC	Intra-group merger of the Italian and German business units
Instron Schenck	Instron's (UK) acquisition of Karl Schenck (G)
Johnson Pump	Johnson Pump's (S) acquisition of Stork (F, B, NL)
LucasVarity	Merger of Lucas (UK) and Varity (U.S.)
Matra-BAe-Dynamics	Merger of Matra (F) and a business unit of British Aerospace (UK)
Nestlé	Nestlé's (UK, CH) hostile acquisition of Rowntree (UK)
Spillers (Now Friskies Petcare)	Spillers' (UK) acquisition of Quaker Oats European Petfoods (Continental Europe)

Abbreviations:

B: Belgium	CH: Switzerland	F: France	G: Germany	GB: Great Britain
I: Italy	NL: Netherlands	S: Sweden	US: United States	

In addition, six experts in the UK and Sweden advising major corporations on the integration of cross-border M&As were interviewed. These interviews were held in a semi-structured way, covering topics that were of special interest to the authors and in which the interviewees had special expertise and experience.

2 Key dimensions in the integration process

Once a merger or acquisition has been finalized, the next step is to create value through some type of integration process [Pablo, 1994]. The authors of this paper argue that two factors are crucial to the success of the integration process and hence M&A performance. The first factor is the depth of integration required to achieve the desired synergies and at the same time maintains the sources of value. The second factor is the way in which the integration process is managed [Haspeslagh and Jemison, 1987]. For this study, the integration process is considered as an "interactive and gradual process during which individuals from two [or more] organizations work together and cooperate in the transfer of strategic capabilities" to enhance the value of the joint operations [Haspelagh and Jemison, 1991]. Three key dimensions of the process are analyzed: The fit between the organizations at (1) the strategic level, (2) the organizational level, and (3) the cultural level [e.g. Buono and Bowditch, 1989; Datta, 1991; Haspeslagh and Farquhar, 1994; Moss-Kanter, 1995]. The variables assess the compatibility between the organizations at each level. During the integration process, the resources, capabilities and skills of the organizations are combined at each level. This is done through changes in the functional arrangements, organizational structures and cultures of the organizations to facilitate their consolidation into one functioning corporation [Haspeslagh and Jemison, 1987; Pablo, 1994]. The latter is of evolutionary manner, since the new joint organization is not only the result of a well-planned course of action, but also of growth and development [Gerpott, 1993].

2.1 Strategic fit

One major factor determining the extent of integration and the approach used is the complementarity of the organizations' strategies [Jung, 1993]. In this paper, strategic fit is seen as the degree to which firms augment or complement their strategies and contribute to the financial and non-financial goals of the merger or acquisition [Jemison and Sitkin, 1986]. It characterizes the potential of both organizations to combine distinctive competences and resources to create value, e.g. through the realization of economies of scale and scope, managerial and financial synergies, or market power. In the analysis of the strategic fit between organizations, the focus is usually on the relatedness or complementarity of the organizations' business and corporate strategies [e.g. Singh and Montgomery, 1987].

Besides determining the value creation potential, the degree of strategic fit and the estimated synergy potential shape the subsequent organizational and cultural integration process. If value is to be created through the exchange of skills and capabilities and the realization of managerial synergies, as was for example the case in one merger we studied in the pharmaceutical industry, the implications for the integration process differ from those in M&As driven by the potential to achieve financial synergies or to rationalize production. The degree of integration required from a strategic point of view is referred to as the need for *strategic interdependence* [Haspeslagh and Jemison, 1991]. It is fairly low in conglomerate M&As, in which mainly financial synergies are to be achieved [Jemison and Sitkin, 1986]. If an acquisition is primarily based on resource sharing, involving the combination and rationalization of operating assets, as is usual in horizontal M&As, the boundaries between the organizations need to be dissolved almost completely [Haspeslagh and Farquhar, 1994]. If value is to be created through the transfer of functional or general management capabilities, residing in human assets, employees have to be transferred across organizational boundaries to reap the full synergy potential. Careful management of the boundaries between the organizations is necessary to ensure that the sources of value remain.

Based on their empirical research, the authors of this study argue that a clear analysis and understanding of the strategic rationale and the strategic fit between the organizations is a prerequisite for successful post-merger integration, since the strategic dimension determines the subsequent organizational and cultural integration process [see for similar arguments Haspeslagh and Jemison, 1991].

2.2 Organizational fit

Organizational fit is the extent to which differing organizations are likely to be integrated with respect to day-to-day operational matters once a merger or acquisition has been finalized [Jemison and Sitkin, 1986]. Organizational fit can be defined as "the match between administrative practices and personal characteristics". When analyzing the organizational fit, the emphasis is usually on "hard" organizational structures and mechanisms, such as the compatibility of the accounting, planning and incentive systems [Jemison and Sitkin, 1986; Dieser, 1994; Datta, 1991]. Whereas the strategic fit determines the synergy and value creation *potential*, and is hence only a prerequisite for superior return, achieving a certain degree of organizational fit is a necessary condition for realizing the estimated synergies [David and Singh, 1994]. The creation of economic value depends largely on the management of the interdependencies between the two firms. Hence performance issues can be related to particular organizational features [see e.g. Haspeslagh and Jemison, 1987; Pablo, 1994; Jemison and Sitkin, 1986; Datta, 1991; David and Singh, 1994; Haspeslagh & Farquhar, 1994]. The concept of organizational fit adds the implementation process as a further variable to the M&A context. It is therefore a valuable contribution to the frequently used strategic and financial M&A frameworks [Jemison and Sitkin, 1986; David and Singh, 1994; Haspeslagh and Farquhar, 1994].

In all the mergers and acquisitions analyzed in this study, the strategic rationale driving the M&As was to achieve operational, managerial or functional synergies and the advantages of large scale operations. This requires a greater degree of integration than conglomerate acquisitions [see for a similar argument Gertsen et al, 1998]. The strategic tasks make it necessary to link the firms' value chains and create the appropriate organizational context for this [Pablo, 1994]. The degree of integration required from a strategic point of view, referred to as the *strategic interdependence* requirement, is counterbalanced by the need to protect the organizations' boundaries to preserve the sources of value. The latter is called *organizational autonomy* [see e.g. Haspeslagh and Jemison, 1991; Haspeslagh and Farquhar, 1994; Pablo, 1994]. The trade-off is particularly important in mergers or acquisitions that require the transfer of capabilities that are "causally related to or inextricable from a specific organizational context", e.g. reside in employees [Pablo, 1994]. If key members of an organization feel that their personal value has been destroyed, e.g. due to considerable interference in their daily operational matters, they might prefer to leave the organization.

The degree to which synergies can be pursued depends on the need to preserve a context-specific source of value. This again determines the degree of organizational integration or autonomy that can be granted [Pablo, 1994]. In M&As in which the firms are completely different with regard to their culture, history, industry and country, full organizational autonomy is typically granted to develop the desired learning and capability exchange processes and hence to create value. In such situations, the considerable diversity of the organizations is sometimes the most valuable asset of the acquired enterprise [see Vicari, 1994]. Figure 1 illustrates the relationship between the previously discussed need for *strategic interdependence* and the demand for *organizational autonomy*.

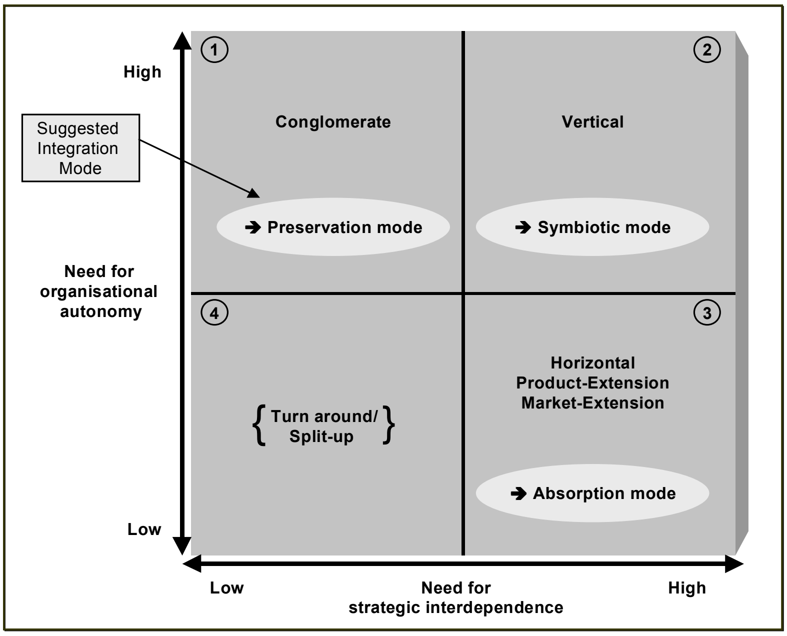

Figure 1: The relationship between strategic interdependence and organizational autonomy (Source: Derived from Haspeslagh, Philippe C./Jemison, David B. (1991), p. 145; Authors' own research)

In quadrant one of the suggested framework are *conglomerate* mergers and acquisitions of non-related firms, characterized by a low need for strategic interdependence [see Gertsen et al, 1998]. The organizations often continue to operate separately, and performance is improved through better financial and managerial control. Simultaneously, conglomerate M&As are characterized by a strong need for organizational autonomy to protect the sources of value creation. The resulting organizational integration approach is called *preservation* [see Haspeslagh and Jemison, 1991].

In quadrant two are *vertical* mergers and acquisitions, characterized by a substantial need for strategic interdependence and a considerable need for organizational autonomy [Haspeslagh and Farquhar, 1994]. They are driven by the potential to exploit economies of scope and corporate competences by integrating the organizations' upstream or downstream activities [Reve, 1988; Krogh et al, 1994]. This type of merger or acquisition represents the most complex managerial challenge, because a substantial capability transfer has to take place to realize the synergy potential, while those capabilities need to be preserved in an organizational context that differs from that of the other organization. This type of integration is referred to as the *symbiotic approach* [Haspeslagh and Jemison, 1991].

The *horizontal* and *product/market extension* mergers and acquisitions analyzed in this study were all characterized by a substantial need for strategic interdependence and close interaction at the operating level, together with a low to medium need for organizational autonomy. They are located in quadrant three and the resulting integration approach is called the *absorption approach* [Haspeslagh and Jemison, 1991]. It implies a full consolidation of the organizations and their operations over time. However, in some M&As analyzed, a larger degree of independence was granted to specific units, depending on the trade-off between the need for autonomy and the need for close integration. In one case studied, the management decided not to integrate all business units, although this would have made sense from a strategic point of view, due to the strong resistance of their management boards.

In quadrant four are *turnaround* or *split-up* acquisitions, which are typically driven by financial motives [Buono and Bowditch, 1989]. They are characterized by a low need for organizational autonomy, particularly in turnaround situations, as well as a low need for strategic interdependence. Since in such M&As the organizational and cultural dimensions are of minor importance for performance, they are intentionally not included in this study.

2.3 Cultural fit

Cultural fit is the third key dimension in the integration process of international M&As [see Jung, 1993]. It is defined as the perception of cultural similarity between the management and the employees of the organizations involved [David and Singh, 1994]. The areas most frequently mentioned are differences in management style, in decision making procedures and in the communication process [Datta, 1991]. Insufficient alignment at the cultural level is likely to result in lower commitment and cooperation of employees [see e.g. Very et al, 1996]. The authors therefore hypothesize that the degree of cultural fit between the organizations involved positively correlates with M&A performance [Cartwright and Cooper, 1997]. At first glance, a good cultural fit between the organizations would imply cultural similarity. If this holds true, achieving a successful merger or acquisition would depend on finding a partner with a good strategic and organizational fit and a similar culture [Cartwright and Cooper, 1997]. However, differences in organizational cultures do not necessarily lead to an insufficient cultural fit, as the degree of cultural distance between the organizations involved does not consequently imply incongruence [see Weber et al, 1996; Cartwright and Cooper, 1997]. There is also no empirical evidence that M&As involving organisations with similar cultures automatically perform better than the ones with different cultures [Cartwright and Cooper, 1997]. The results of this study indeed suggest that congruence can also be reached by achieving complementarity, and not necessarily similarity, between different cultures. It would actually be against economic rationale to neglect M&As with a high synergy potential from their strategic fit because there is a lack of cultural fit unless the corporate value systems and managerial styles were sharply contradictory [Larsson, 1991].

The cultural integration process can be called *acculturation* [Nahavandi and Malekzadeh, 1988; Elsass and Veiga, 1994]. It is generally defined as changes in the organizations' cultural systems as a result of their combination [Nahavandi and Malekzadeh, 1988]. The key to managing an acculturation process properly is obtaining the participation of employees and creating an atmosphere that supports the desired capability transfers [Haspeslagh and Jemison, 1991; 1994; Calori et al, 1994; Nahavandi and Malekzadeh, 1994]. The acculturation process is one of dynamic development. The acculturation approach, the process of implementation, and the final result of the M&A will again have an impact on the cultures and practices of the organizations involved [Nahavandi and Malekzadeh, 1988]. One of M&As studied performed poorly not because the cultures were incompatible as such, but rather because of the improper management of the cultural integration process [Cartwright and Cooper, 1993]

The framework in figure 2 illustrates different integration approaches in two dimensions: The degree of *cultural autonomy* required by the organizations to maintain the sources of value and to foster an atmosphere for value creation on the one hand, and the need for *organizational interdependence* required to achieve the synergies and to create value [see also Buono and Bowditch, 1989; Jung, 1993].

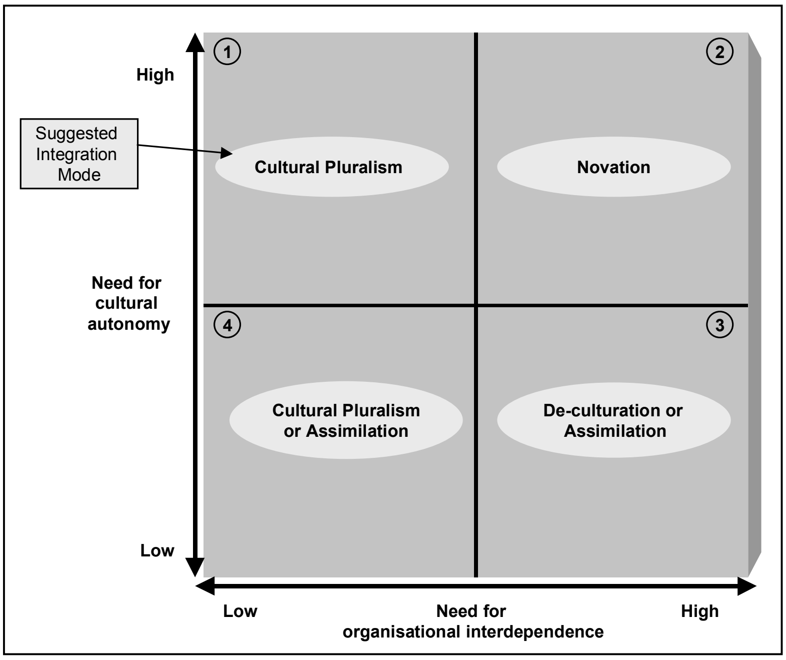

Figure 2: The relationship between organizational interdependence and cultural autonomy (Source: Derived from Schweiger, Csiszar & Napier [1994:36], authors' own research)

In a merger or an acquisition that can be placed in quadrant one, the acquired company wants to keep its culture; simultaneously there is either no necessity for extensive integration of the organizations and their cultures, or the costs of such integration would offset the potential benefits [Pablo, 1994]. Multiple cultures within the new joint organization are possible, and the resulting approach is one of *cultural pluralism* [see Buono and Bowditch, 1989; Marks and Mirvis, 1998]. In quadrant two, the aculturation process is a combination of both cultures, ideally a process of mutual interaction and adaptation, resulting in the evolution of a new culture that represents the best of the previous cultures – a process that seems hard to achieve in practice [see Nahavandi and Malekzadeh, 1988; Cartwright and Cooper, 1993; 1997]. This integration approach is called *novation* [Carwright and Cooper, 1997]. A process of novation is more likely to take place in a merger than in an acquisition because of the more balanced distribution of power. In one of the aerospace and defense M&As studied, employees of both firms were intentionally disconnected from their past organizations by being subjected to an extensive human resources evaluation, selection and migration process. The result was a new culture, consisting of the preferred elements of both preceding cultures. Although novation was the desired approach for the cultural change process in a French-British M&A deal, the attempt to develop a new corporate culture failed because of the strong differences at the national cultural level between both organizations.

In mergers or acquisitions located in quadrant three, acculturation is ideally a process of *assimilation* or *deculturation*. Assimilation takes places when "members of one organization willingly relinquish their existing culture, and adapt and become absorbed into the culture of the acquirer or dominant merger partner…" [Cartwright and Cooper, 1993]. In a process of deculturation as the other alternative, the acquirer or dominant partner imposes its culture on the other organization, while the acquired company's culture is perceived as unattractive [Nahavandi and Malekzadeh, 1988; Jung, 1993; Buono and Bowditch, 1989]. Quadrant four covers M&As in which the acquired organization is willing to give up its own cultural identity, while simultaneously there is only a low need for cultural integration. The acculturation approach can either result in cultural pluralism, meaning the organizations keep their own cultures, or, like in quadrant three, in a process of *assimilation*.

However, other dimensions which assess the trade-off between cultural integration and cultural autonomy are also possible. Examples are the degree to which members are satisfied with their own culture and value the attractiveness of the other organization's culture, as put forward by *Cartwright* and *Cooper* [1993:64], or *Buono* and *Bowditch* [1989:173] the predominant leadership style and the acculturation approach, as suggested by *Malekzadeh* and *Afsaneh* [1998:120] or the degree of friendliness of the takeover. The dimensions used in this study have been chosen because they allow an assessment of the trade-off between a human-cultural dimension, i.e. the degree to which an organization wants to keep its culture, and a strategic-organizational dimension, i.e. the degree of integration required to create value.

2.4 Aligning strategic, organizational and cultural fit: Toward an integrated process perspective

In the past, researchers have often adopted a choice perspective, focusing on only one of the dimensions of fit between the organizations, and thereby neglecting the interdependencies between each dimension[Jemison and Sitkin, 1986; Trautwein, 1986; Napier, 1989; Sieben and Stein, 1992; Waldecker; 1995]. After having defined the three dimensions of fit separately, they are integrated into one coherent process perspective [see Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; 1994; Pablo, 1994].

A process perspective ensures adequate consideration of the strategic, organizational and cultural issues that directly influence M&A results and prevents the segmentation of individual activities during the different M&A stages, which frequently results in an overemphasis of strategic rather than of organizational and cultural analysis [Jemison and Sitkin, 1986]. In addition, "adopting a process perspective shifts the focus from an acquisition's results to the drivers that cause these results: the transfer of capabilities that will lead to competitive advantage." [Haspeslagh and Jemison, 1991:12]. Strategically related mergers and acquisitions usually require the integration of several organizational activities to create the expected value, whereas in unrelated M&As the emphasis is on a proper financial fit [Jemison and Sitkin, 1986].

The authors of this study see a definite need to go beyond issues of relatedness and synergistic benefits, since value creation does not take place automatically [Datta, 1991. For a similar opinion see also Pablo, 1994.] Seeing M&As as an evolving and integrated process also helps to maintain a balance between "hard" issues like strategy, planning and restructuring and "softer" issues such as organizational and cultural integration [Deister, 1994].

When aligning the previously described dimensions of fit between the organizations and integrating them into one coherent perspective, a contingency-based approach to managing acquisitions is applied [Haspeslagh and Jemison, 1991]. This explicitly considers the strategic tasks and the strategic capability transfer that needs to be accomplished in a merger or acquisition, and the need for organizational and cultural integration these imply. At the same time it is conscious of the organizational requirements for autonomy when these are central to achieving the purpose of the M&A transaction [Haspeslagh and Farquhar, 1994]. The cultural and organizational embeddedness of the obtained strategic capabilities determines the real integration constraints. This implies that a model of cultural change in international mergers and acquisitions has to take into consideration the impediments inherent in the process as well as the different tasks determined by the strategic and organizational dimensions.

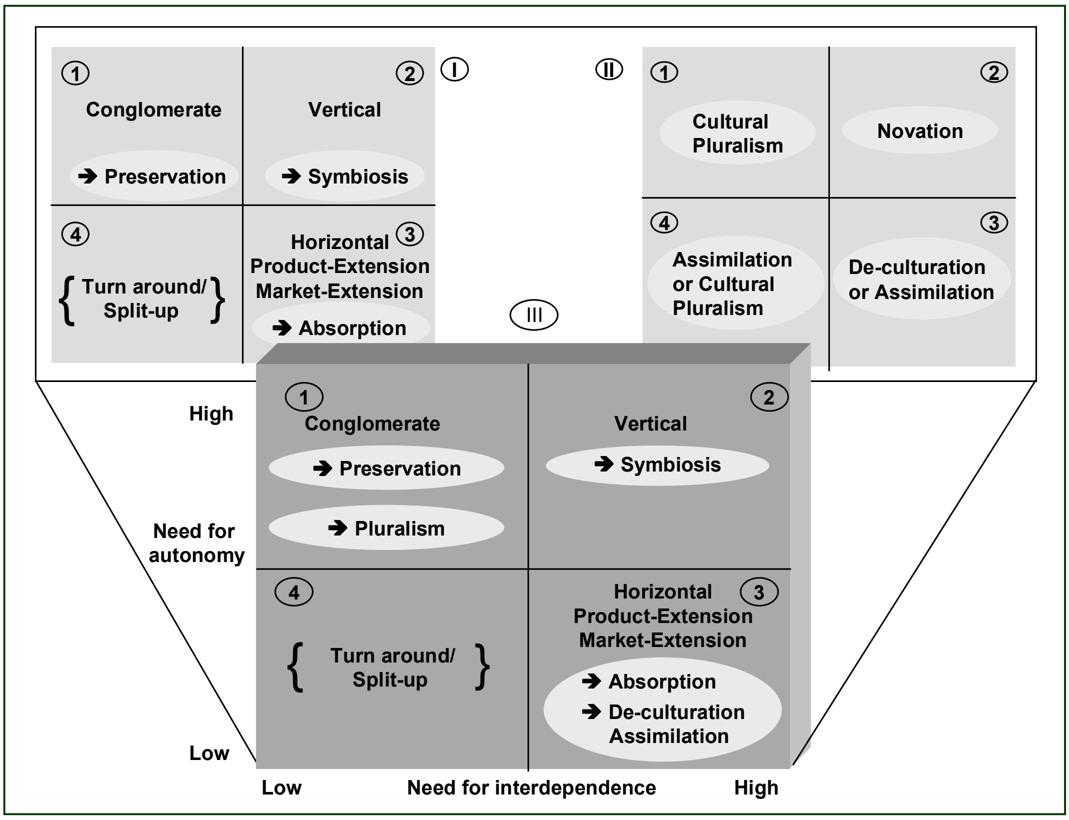

Figure 3 integrates the previously developed models, shows the relationships between the strategic, organizational and cultural dimensions and suggests possible integration approaches.

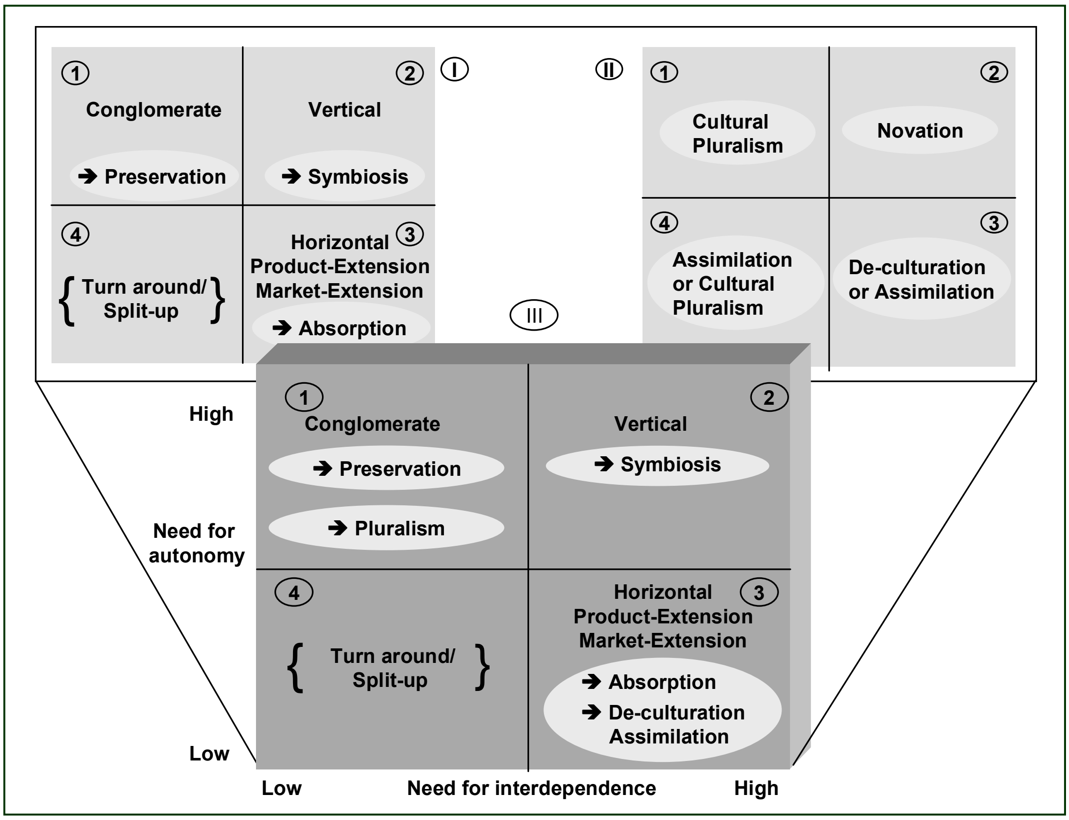

Figure 3: An integrated framework for strategic, organizational and cultural fit

Quadrant one again covers *conglomerate* M&As, characterized by a high need for autonomy and a low need for interdependence. To create value, the most appropriate integration approach is likely to be the *preservation* of the existing organizations, typically resulting in *cultural pluralism* for the combined organization [Haspeslagh and Farquhar, 1994]. The integration process is frequently limited to changes in financial or managerial control [Vicari, 1994].

For *vertical* mergers or acquisitions in quadrant two, characterized by a high need for interdependence and a simultaneous high need for autonomy, a *symbiotic* organizational integration and acculturation approach is chosen. This commonly results in a new organizational structure along with a new cultural identity. The emphasis is on mutual adaptation during the exchange of resources and competences between the parties. In some of the M&As studied, the change process was accelerated through a decisive personnel selection process and by moving employees around in the new organization.

Horizontal and *product/market extension* mergers and acquisitions in quadrant three are typically characterized by a high need for interdependence, while only a lower degree of autonomy can be granted, resulting in an *absorption* of one organization into the other. In these cases, the strategic requirement for close organizational integration to reap the synergies and to realize economies of scale is more important for superior return than the organizations' desire to keep their autonomy and their cultures. The resulting acculturation process is likely to be one of *assimilation*, during which one organization willingly relinquishes its own culture and accepts a new one, or one of *deculturation*, in which the dominant partner imposes its culture on the other organizations. In M&As in the retail industry for example, obtaining market access, distribution channels and shelf space rather than acquiring human assets is commonly the predominant underlying rationale.

In quadrant four are *turnaround* or *split-up* M&As in which the organizational and cultural integration is of less concern than financial and strategic factors. The acculturation can either result in a process of *assimilation* or in *cultural pluralism*.

The previous discussion about the different dimensions of fit and the integration frameworks lays the foundation for the integrated model of cultural change in international mergers and acquisitions which will be discussed in detail in the following chapter.

3 Managing cultural integration in international M&As

Although it is known that mergers and acquisitions can fail or at least not live up to their expected performance due to improper management of the acculturation process, approaches that focus particularly on the management of the cultural change process in M&As remain a rarity [noteworthy exceptions are the models proposed by Buono and Bowditch, 1989]. In the following, the authors present an integrated framework for the cultural transformation process, especially developed for the M&A context and predominantly based on their empirical research.

3.1 Toward an integrated model of cultural change in international M&As

Culture can be considered as part of a group's learning process and behavior [Hofstede, 1991]. It is dynamic and can be changed over time, as the members of a group are confronted with new environmental demands and internal integration efforts [Buono and Bowditch, 1989]. However, since the basic assumptions underlying a culture are usually taken for granted, cultures do not change easily, and cultural transformation is a gradual and incremental process [Schein, 1992]. The authors again apply a process perspective and see the cultural change process not as a separate activity, but rather as one that is embedded in the entire post-M&A integration process and which shows strong interdependencies between each of the individual steps.

Figure 4 illustrates the integrated model developed by the authors which will be discussed in detail in the following paragraphs (the model aggregates the results of the interviews and discussions the authors had with CEOs and senior managers across Europe who were involved in international M&As).

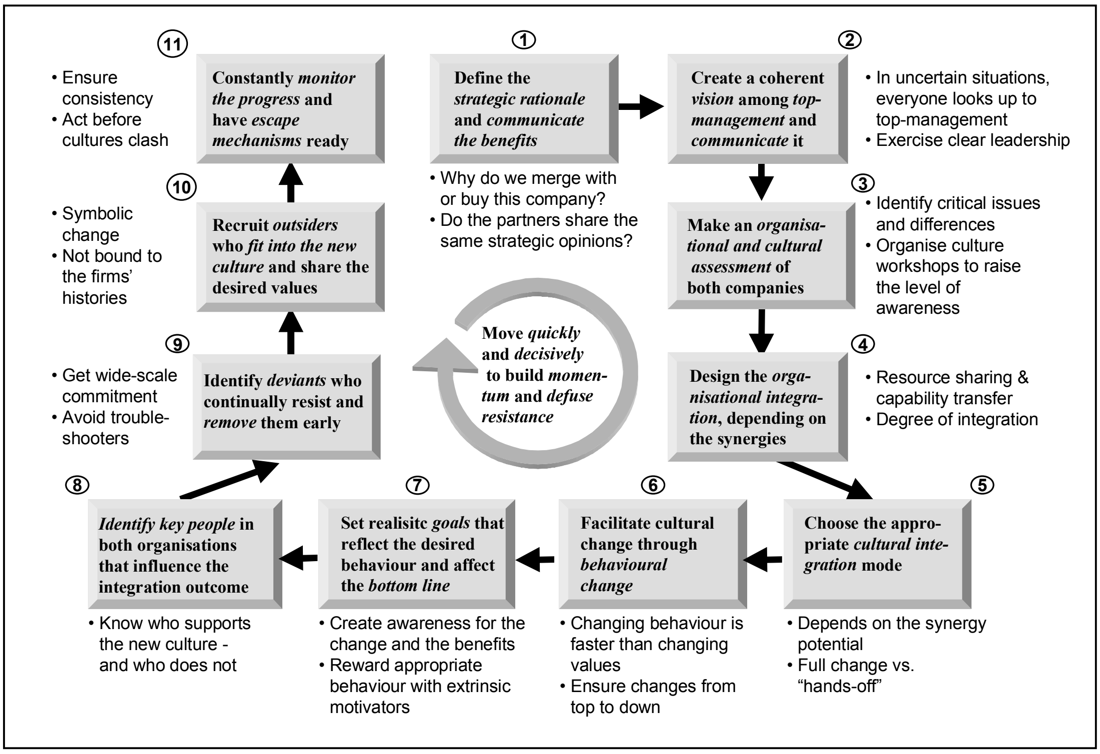

Figure 4: An integrated model for the management of cultural change in M&As (Source: Developed by authors)

The discussion in the previous chapter on aligning strategic, organizational and cultural fit into one coherent process perspective suggests that one variable influencing the process of integrating different cultures and its outcome is the strategic rationale driving the merger or acquisition. Therefore, step one in the proposed model is the *definition of the strategic rationale* and the *communication of the benefits* of the M&A transaction [see also Frank, 1993]. The strategic rationale is the contribution the merger or acquisition can make to enhancing the competitive position of the organizations [Jemison and Sitkin, 1986]. As the integration process always involves people, gaining employee commitment from early on is vital for the success of the integration process. In order to mobilize the entire organization, the strategic rationale and the potential benefits should be developed in a bottom-up approach and should be communicated clearly at the beginning [Krogh, 1994]. This also ensures that employees are informed about the changes and the direction the joint company is taking.

Under ideal circumstances, they are also supporting those changes, again reducing uncertainty and stress which might otherwise lead to drops in productivity [Lippitt et al, 1985]. During the communication process, the different styles of communication that are influenced by different national cultural settings have to be taken into consideration. In the German-Italian M&A studied, Italians believed that the way in which information was imparted was most important, whereas for Germans quite the opposite was the case. They were more concerned with what was said than how it was said [Napier et al, 1989; Schweiger et al, 1994; Ahkenas et al, 1998; Stüdlein, 1997; Adler, 1986].

Step number two is the *development of a strategic vision* that is supported by the entire top management. In uncertain situations, such as PMI for international M&As, employees look to their top management for guidance. Hence developing a joint vision and exercising decisive corporate leadership are the first steps to removing the confusion which may occur within the organization after the announcement of an M&A transaction [Lorsch, 1986]. The new vision should be developed bottom-up to gain the necessary commitment of all employees and then communicated and "sold" at all levels of the organization to provide guidance and to obtain the necessary commitment from employees [Cartwright and Cooper, 1997]. In addition, because of the tendency for value to be destroyed at an early stage, leadership becomes even more important after a merger or an acquisition has started and employees of the organizations brought together [Haspeslagh and Jemison, 1991]. This step also takes into consideration the unique and powerful role top management can play in ensuring the direction and progress of change. By explicitly setting new standards, they can accelerate the change process.

Following the framework, step number three is to undertake a large scale *organizational and cultural assessment* in all parts of the organizations that are affected by the M&A transaction [Cartwright and Cooper, 1997]. Such systematic investigations help identify the prevailing values, organizational practices and procedures of the organizations. Besides getting to know each other better and identifying potential culture clashes, the exercise helps to create mutual awareness and an understanding of the challenges involved [Dabui, 1998]. A manufacturing company interviewed for this study undertook such a large scale assessment of both organizations involved prior to the deal. As a result, the parties knew what to expect during the integration process. Furthermore, the acquirer was able to adjust the purchase price because potential problems during the integration process and their financial impact could be anticipated. An organizational and cultural assessment can take the form of a series of in-depth interviews with groups or individuals, or can be conducted through questionnaires. During the authors' empirical research it turned out that this stage of creating awareness of the differences and subsequently quantifying them is an essential early step in the cultural change process. In addition to cultural assessments, cross-cultural workshops should be organized to raise the level of awareness and to create a mutual understanding among the parties of the impact culture has on the integration process and on performance [Cartwright and Cooper, 1997; Stüdlein, 1997].

Based on the assessment of the organizational and cultural differences and the strategic rationale, step four is to the *design the appropriate organizational integration approach*. At this stage, the trade-off between the need for close strategic and organizational interdependence and the desire of the organizations to remain autonomous has to be managed. This step and step number five, *design of the cultural integration approach,* have already been analyzed and discussed extensively in the previous sections of this article. The findings of the cultural assessment of both organizations and the need to preserve their cultural autonomy have to be balanced against the need for close integration and interdependence that is required to reap the expected synergies and to create value.

Following the definition of the cultural integration approach, the acculturation process should first aim at *cultural change through behavioral change* (step six), as employees' behavior is likely to change faster than their underlying values. Changing the underlying values instead of their visible behavior is expected to be a time-consuming approach, as values are the most deep seated elements of a culture and are most difficult to change. Behavioral change usually also leads to a change in the values underlying and determining the long-term development of human behavior. By focusing on the desired behavior, managers can influence the result of the change process by explicitly changing their own behavior and by demonstrating the expected standards [Buono and Bowditch, 1989].

A cultural change process can be *accelerated* by *setting goals* that reflect the desired behavior and by creating an *appropriate reward system*, which is step number seven in the suggested framework. If members of an organization can see the inherent value of their changes, for themselves and as well as for the organizations, they accept and identify more easily with what the organization is trying to accomplish [Buono and Bowditch, 1989]. Behavioral change is best accelerated if individual goals have a direct impact on the bottom-line results of the organizations, so that employees can see how their individual adjustments influence the organizations' performance.

Based on the empirical research, the authors recommend rewarding appropriate changes with extrinsic motivators in the first instance, subsequently followed by intrinsic motivators to create a long-lasting effect. This is somewhat contrary to the opinions of other authors, such as *Buono* and *Bowditch*, who solely emphasize the use of intrinsic motivators [Buono and Bowditch, 1989]. However, as a note of caution it must be mentioned that the effectiveness of extrinsic motivators seems to vary between countries. In societies in which masculine values, e.g. a strong focus on individual power and accountability, are highly priced, extrinsic motivators are likely to be very effective. This was the case in one Italian-German merger and in most of the M&As studied involving British and German organizations. In societies in which more emphasis is placed on feminine values, e.g. emphasis on cooperative behavior and empowerment as in Sweden, intrinsic motivators are likely to be more motivating than extrinsic ones, as could be observed in the Swedish-Belgium-Dutch acquisition studied.

The next three steps are related to human resources management issues in the cultural change process. Step eight is the *identification of key people* in the organizations. They are the ones who not only support the desired culture, but also have an impact on the behavior of other employees. These employees can act as facilitators or agents of change and can help move the organization in its new direction [Dabui, 1998].

Step nine in the framework is the *identification and removal of deviants*. Employees who continually resist and are unwilling to change should be identified and finally be removed. However, this should be a careful approach, ensuring that not the very key people important to the organizations' future are lost [Buono and Bowditch, 1989].

In addition, the approach used to terminate employment can significantly affect both those who leave and those who stay [see also Schweiger et al, 1994]. For those who stay, the way dismissals are managed signals how employees might be treated in the future. The removal of deviants is also a symbolic act [Walsh, 1988]. A major cultural change in one of the M&A deals analyzed was the replacement of the acquired organization's existing management. In another case, employees of the acquired firm who were constantly unwilling to accept and to support the desired changes were either transferred to other business units less affected by the acquisition or asked to leave. In a merger between two aerospace and defense companies, an extensive human resources selection process was organized, also checking the consistency between the goals of the organization and of individuals and their behavior. The entire senior management had to go through several stages of detailed performance assessment and a selection process. The final allocation of the managerial positions in the new merged company was based on the individuals' future performance potential and the fit between the values of the new organization and those of the candidates, irrespective of which firm they had been with in the past. Through this process, employees were also successfully disconnected from their previous organization and their past behavior.

However, a high rate of employee turnover can also have negative repercussions. It can lead to frustration among the remaining employees and a loss of the employees who are particularly relevant to the success of the merger or acquisition [Walsh, 1988]. The rate of turnover that can be tolerated by the organization depends partly on the strategic rationale. In mergers or acquisitions in the retail industry for example, human assets are usually less important than strategic ones, such as distribution channels or shelf space. Hence, a higher turnover rate can be acceptable. Replacing employees is also an appropriate way to achieve a fast and radical culture conversion. Step ten is the *recruitment, hiring and organizational integration* of outsiders who fit into the desired culture, and who are not bound to the organizations' histories. It is suggested that they should preferably also have a knowledge of the industry which makes it potentially easier for them to assimilate and to create value [Flanagan, 1995]. In addition to a match on the skill level, a congruence between a candidate's values and behavior and the existing or future culture of the organization should be achieved [Buono and Bowditch, 1989].

The final step, number eleven, is a constant *monitoring of the progress of the cultural change process* [Cartwright and Cooper, 1997:157]. Often, after an integration process has started, the attention devoted to integration issues and to the cultural change process in particular decreases after a while. But to ensure a fundamental change, and not just an incremental one, the progress has to be monitored to guarantee consistency and to keep a constant level of activity [Lorsch, 1986]. Most of the managers interviewed for this study admitted that they went back to business too early once a post-M&A-integration-process PMI had started and did not monitor the evolution of their cultural change efforts. This can be done, for example, through regular interviews or by distributing questionnaires to employees. Another way to monitor the progress of cultural change is to place accountability for the process with employees at various levels of the organization, asking them to supervise the changes, to become involved if necessary and to report to senior management in cases of exception [see also Flanagan, 1995]. A monitoring process is also an escape mechanism in case the culture changes in an unfavorable direction, as it has the potential to re-establish organizational trust and to renew employee commitment within a short period of time [Cartwright and Cooper, 1997].

4 Conclusion

All the managers interviewed for this study highlighted the necessity of *maintaining the momentum for change* and *moving fast and decisively* [see also Flanagan, 1995; Cartwright and Cooper, 1997]. Keeping up the momentum and a constant level of activity usually also supports the implementation of the required adjustments, as employees get used to change. One failure frequently cited was that the organizations went back to "business as usual" too early, neglecting the potential long-term impact of the developments. In addition to the authors' empirical research, other surveys conducted independently have shown that companies undergoing a faster M&A integration process than their competitors show a better post-M&A performance. According to these surveys, fast changing organizations achieved approximately 80% of their set objectives, whereas the rate for those with a slower approach is only some 50% [Coopers & Lybrand, 1997].

A successful cultural change process in the M&A context is one in which not only the performance of the joint organization increases to the desired extent and in which long-term value is created, but also one in which the management has succeeded in institutionalizing the behavioral change required for long-term success. This depends not only on the capabilities of the management in leading such a change and integration effort, but also on how accurate its diagnoses are, on its ability to approach strategic, organizational and cultural issues from an integrated perspective, and on whether the new culture and behavior are appropriate to achieving the firm's long-term objectives.

The model developed in the previous paragraphs aggregates the positive as well the negative lessons from the interviews with corporate executives, senior managers and experts about their M&A experience. The framework has been discussed and tested with executives, managers and experts who are currently involved in large-scale M&A integration projects and cross-border joint ventures.

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