

## **Merging Successfully**

The importance of understanding organizational culture in mergers and acquisitions

**Kent Rhodes, Ed.D.**

**Application: When companies merge or go through an acquisition, the lack of a cohesive culture in the newly merged company can "break a deal."**

*The reader is also encouraged to read "Making Mergers a Growth Strategy " by Dr. Rhodes, which appeared in the Spring 2002 issue of GBR. In that article the author provides a more in-depth look at the concept of "Root Strategic Assets." - The Editors*

### **Origins of Culture A Critical Concern in Merger and Acquisition Strategies**

*Mergers and acquisitions as growth strategies are once again in vogue. This business drama seems to be fueled by recent highly visible mergers between rich and famous players. Even speculation around a low ball offer by Comcast to acquire Disney seems to excite global interest in corporate marriages. However, like all such deals, long-term success is rarely accomplished by a mere combination of cool stuff and know-how. In the midst of all the hype, a well documented fact is that most merger and acquisition activity rarely delivers the highly anticipated synergies between companies. Throughout a merger or acquisition, people in an acquired company often complain that they don't know what is happening, express fear about losing their jobs, and feel demoralized as to the future of their contributions. Failed mergers that otherwise have a sound strategic and financial fit are typically the result of the irretrievable loss of intangible, messy-to-measure, and difficult-to-implement human factors on which the company's tangible assets ultimate rest.*

*Traditional integration practices have been built around consolidating key resources, financial and physical assets, brand names, and tradable endowments. The most forward thinking integration strategies also capture key pieces of elusive core competencies, such as an organization's best practices, skills, knowledge bases, and routines. Typically excluded are critical root strategic assets, which can make or break a union that is otherwise "made in heaven." These root strategic assets include collaborative leadership, cultural cohesion and talent retention.*

### **The Impact of the Merger or Acquisition on the New Organization**

*Mergers and acquisitions immediately impact organizations with changes in ownership, in ideology, and eventually, in practice. Of the three root strategic assets noted above, cultural cohesion is most often the critical asset in the eventual success or failure of the overall deal and the one that impacts the extent to which qualitative talent retention can be attained.*

*Despite the fact that it is increasingly common these days for companies to publish their cultural traits or values, what is listed does not always reflect the actual culture of the place. Anthropologists have long known that the task of learning about a specific group's culture does not start by asking members themselves to identify the specific traits. In fact, cultural traits are not readily identified by the members of a social group. Understanding the depth of cultural influences that are practiced over time within a specific group or organization requires long periods of reflective observation and the formation of key questions about beliefs, disciplines and innovative problem solving strategies.*

## **Cultural Cohesion**

*Discerning a company's cultural cohesion is based on identifying the organization's bedrock cultural components, which are the functional equivalents of the structural elements of a building: the foundation, beams, pilings, etc. Careful inspection, identification, and assessment of the supporting walls of a building are crucial to determining the ultimate integrity of the space before it can be effectively and safely renovated or restructured. While a company might be acquired because of the synergies around brands, competencies or physical assets, the success of the merged firm may well depend on whether or not steps have been taken to identify and retain the organization's primary cultural underpinnings that support and maintain those valuable resources.*

*The practice of cultural cohesion as a root strategic asset in merger and acquisition integration involves identifying the underlying disciplines, conditions, and beliefs that make up the internal weight bearing structures of an organization and lead to the formation of outward cultural traits. However, identifying and describing a company's culture is inadequate, in and of itself, for maintaining key structural supports of the organization. Even if cultural traits are accurately identified, the process of maintaining their integrity within a new organizational structure presents an entirely new set of challenges that most managers are ill equipped to meet successfully. Cultural traits by themselves don't provide enough information to determine where specific structural supports are located in a company. Cultural traits tend to be simple outward manifestations of the more complex underpinnings that hold a company together, help define what the company does, and, more importantly, how the company does it.*

### **Terminology to Identify Cultural Cohesiveness**

*Developing terminology that identifies cultural cohesive elements common to all organizations can be a first step for managers to begin the process of understanding of how cultures form and the ways in which cultures determine behavior, as well as of identifying elements required to retain structural and cultural cohesion throughout the merger and acquisition process. This first step of understanding cultural cohesiveness and the origins of cultural traits provides critical strategic information that managers need in order to make an acquisition produce true synergy and add real value.*

*By borrowing terms from diverse disciplines, we can create language that helps us examine specific bedrock origins of culture that are common to most organizations and that result in visible cultural traits and practices. Each of the cultural cohesion classifications listed here describes a cultural origination point and its outward cultural trait and suggests implications for effective merger and acquisition integration strategies. In mergers and acquisitions, immediate replacement of cultural cohesion practices can result in the loss of a key cultural driving force for individuals in the organization who are crucial to the work of the new organization. Following are seven of the most important of these concepts.*

#### **Metallurgy**

*Traditionally, metallurgy describes the structures and properties of metal, the way it is extracted from the ground and is refined, and the various means of creating things from it. When describing organizations, the term refers to a system of processes and procedures that occurs in all organizations and that creates specific cultural traits around the ways people approach their work on a day-to-day basis.*

*Over time, a successful organization's approach to truly innovative work that is done to create a product or service becomes a "best of" practice. Possible cultural traits that develop as a result of a company's approach to "organizational metallurgy" could be a sense of overall pride of accomplishment, reverence for the company's long history of always carrying out processes and procedures in a particular way, and overall openness or resistance to change. In view of the cultural traits embedded in the "organizational metallurgy" of a given company, managers involved in mergers or acquisitions might not want to rush to*

replace these practices. The history of such processes can be leveraged to the acquirer's competitive advantage if investigation of the practices' validity warrants. The extent to which that history of practice does or does not result in pride or stagnation is a critical piece of information for managers moving forward in an effective integration strategy.

### **Mythology**

Mythology is the group of stories, ideas, or beliefs that become a part of an organization. While these stories are not necessarily based on facts, they usually reflect historical accounts of greatness or tragedy and will likely show up in the organization either as a respected legend or common gossip. Mythology in a company can serve either to create a culture of inspiration or a culture of mistrust. During the process of mergers and acquisitions (M&A) integration, managers should identify organizational myths. If those myths serve inspirational purposes or appropriately link current work to the company's history, creating ways to acknowledge such stories could improve the odds of talent buy in.

### **Missiology**

Missiology is the process of persuading others to accept or join a belief, cause, or movement.

Most organizations have a tacit, though usually quite subtle, process through which new employees are effectively assimilated into or blocked from the organization. Depending on the unspoken practices of the organization, this assimilation process may also include opportunities to commit to or question company values. The attitudes that current employees have in supporting or prohibiting the integration of new talent directly impact the integration process. It is particularly important to realize that this informal socialization process may not be the same as the new employee recruitment, orientation, and professional development programs set up by the Human Resources Department even though the latter may be held up as providing ways to acculturate new members so that they learn valuable cultural traits.

Implications for effective M&A integration include a realization by senior managers that an attitude of "This is a great place to work" is a powerful resource to fold into the company. Its antithesis, "We hate this place," offers a challenge to replace that negative attitude and create a productive outlook.

Managers who correctly identify a company's existing missiology or approach to integrating new people have an advantage in designing new strategies that represent well-thought-out processes for enlisting broad support of the integration process. At the end of the day, it is the people within a company who have the most impact on how effectively new talent is integrated into the organization and whether that integration is into a positive or cynical culture. Managers who leverage in a positive manner the resources of those individuals' attitudes can increase the odds of successful integration of those resources.

### **Meritocracy**

A meritocratic system gives opportunities and advantages to people on the basis of their contributions and abilities rather than on the basis of their job longevity, connections, status, or other such attributes. People are more likely to contribute genuinely to the organization and maintain trust when there are clear and fair promotion, advancement, and recognition practices. More importantly, the degree of meritocracy can be an indicator of the real ethical practices of a place. The degree to which meritocracy is perceived to be the norm translates into cultural traits of reward expectations and the extent to which such expectations are fair or not. Implications for effective M&A integration include addressing ways in which individuals' contributions are recognized and valued. People will take notice if the merging companies have differing traditions and systems for advancement and reward regardless of whether or not they perceive a company's practice of meritocracy to be positive or negative. Since each organization weights contributions and abilities differently, it is important for managers to recognize the

real reward systems that are in place in the merging companies and how these systems differ in the ways they are implemented and perceived by employees. These differences could impact employees' resistance to or acceptance of integration efforts.

### **Modality**

Modality is a treatment or strategy applied to a specific disorder or circumstance that needs improvement. Typically used as a medical term, modality can be medication or therapy used to treat an illness or disease. In a company in which there is a healthy awareness that dysfunctional behavior and processes can exist, appropriate modalities must be chosen to address or remedy specific problems rather than ignoring or accepting the problems. Over time an organization may have accumulated an impressive "medicine chest" of very specific remedies that could bring value to the acquisition. Managers would do well to identify and evaluate these modalities for integration into the new organization. On the other hand, if an organization has routinely avoided or ignored organizational maladies, a triage approach to those challenges might be necessary in order to move the integration process forward. The way successes and failures are acknowledged and dealt with is important to successful integration.

Effective "treatments" within a company may be worth close scrutiny and an effort to bring them into the merged organization. By the same token, preparing strategies to integrate into a new entity an organization that has a history of ignoring problems or treatments requires particular attention during the integration process in order to avoid the transference of ineffective modality practices.

### **Mores**

Mores are customs and habitual practices, especially as they reflect moral and ethical standards that a particular group of people accept and follow. This cultural cohesion classification reflects the ways ethics plays out in the daily life of the organization and the ways in which ethics statements and/or ethics training impact behavior within an organization. Implications for effective M&A integration include paying attention to the ways ethics is practiced in the organization: How do ethics training programs affect employees? Is training pushed down throughout the organization simply to meet requirements, or is living with integrity actually valued and rewarded within the organization? Managers should identify the mores of each organization and the ways in which they can be effectively shared across organizations. If an acquiring company's mores are viewed as being based on low standards, people in the acquired company will be less likely to support integration initiatives and may leave. Strategies should be formulated to equalize mores between organizations by advancing a "best of" approach to mores and ethics development in the new organization.

### **Mettle**

Mettle -- the courage, spirit, or strength of character of a group within an organization or the particular mental and emotional character unique to an individual. The extent to which individuals pay attention to their own spiritual development or are encouraged by the organization to develop mettle can result in an important cultural value. This cultural cohesion classification has only recently begun to receive attention as a valuable characteristic of companies and individuals. Effective M&A integration suggests that managers should look closely at ways that individuals show their mettle by practicing altruistic concern and respect for others within the organization. Enhancing and supporting these behaviors is critical to the success of the organization and could serve as a positive leavening effect throughout the organization.

### **Conclusion**

The concepts of organizational integration, or diffusion, continue to provide challenges to increasing the success of mergers and acquisitions. Noted anthropologist John Honigmann sums up those challenges:

“Successful [cultural] diffusion is never automatically accomplished. Innovations diffuse when they meet certain conditions and diffusion promptly slows down or ceases when other conditions exist. Anthropologists who have studied what lies behind the spread of culture stress the importance of compatibility. Diffusion speeds up whenever an origination is congruent with strategic features of the receiving culture.”<sup>[i]</sup>

While these eight cohesive classifications tend to be consistent across organizations, they are also highly interactive with each other. They offer glimpses into the origins of culture within an organization. They provide a framework for developing sustainable integration practices of root strategic assets and have implications for increasing the success of mergers and acquisitions.

---

[i] J. Honigmann, *Understanding Culture* . (New York: Harper & Row, 1963): 338.

#### References

R Grant, “The Resource-based Theory of Competitive Advantage: Implications for Strategy Formulation,” *California Management Review* , 33, Issue 3 (1991): 114-135.

E. Penrose, *The Theory of the Growth of the Firm* (New York: John Wiley and Sons, 1959).

R. Amit and P. Schoemaker, “Strategic Assets and Organizational Rent,” *Strategic Management Journal* , 14, (1993): 33-46.

K. Conner, “Historical Comparison of Resource-based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have a New Theory of the Firm?” *Journal of Management* , 17, Issue 1, (1991): 121-154.

J. Honigmann, *Understanding Culture* . (New York: Harper & Row, 1963).

---

[Current Issue](#) | [GBR Archives](#) | [Faculty Research](#) | [Comments](#) | [Graziadio School](#)

---

© Copyright 2004 Pepperdine University  
The George L. Graziadio School of Business & Management  
6100 Center Drive, Los Angeles, CA 90045-1590

The opinions expressed are those of the authors and do not necessarily reflect  
The Graziadio School of Business and Management or Pepperdine University.