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MANAGING CULTURAL DIFFERENCES IN MERGERS AND ACQUISITIONS: THE ROLE OF THE HUMAN RESOURCE FUNCTION

Mergers and acquisitions are an everyday occurence in the U.S. economy. In 1985, alone, nearly 3000 mergers, acquisitions and divestitures were reported involving assets valued at nearly $200 billion. A naive observer might assume that this tremendous movement in corporate assets is guided by considerable wisdom concerning how to select merger and acquisition targets and how to consummate corporate marriages successfully. Nothing could be further from the truth.

No comprehensive data exist about the percentage of mergers and acquisitions that end in failure, but nearly all observers agree that the percentage is disturbingly high. Experts cited in contemporary business press articles offer varying estimates. Drucker claims that 40% of all mergers are "outright disasters" and that another 40% "do nothing for either organization." Experts are cited as claiming that 75% of all acquisitions "fail to fulfill desired objectives" and that a third are "outright failures."

Some empirical evidence has been reported, mostly based on studies of acquisitions by a small number of Fortune 500 companies. Kitching, in a 1967 study of 69 acquisitions by 20 companies, found that executives of the parent company rated the acquisition a "failure" in 19 cases (28%). McKinsey & Co. examined 58 major acquisitions by client companies during the period 1972 to 1983, and asked (a) whether the return on investment exceeded the cost of capital and (b) whether the acquisition helped the parent outperform the stock market. Some 43% failed both tests of success and another 10% failed one test or the other.

Acquisition Horizons questioned executives from 537 companies that made one or more acquisitions within a five year period; 40% described their acquisition efforts as "somewhat successful" or "unsuccessful."

In 1982, Fortune reexamined 10 major mergers that were conducted in 1971. All were conglomerate mergers -- that is, the two companies were in different businesses. Half of the mergers had negative effects on earnings per share; none measured up to the median return on investment for the Fortune 500 during the same period; and only two were accomplished without major difficulties.

One indication of failure is the eventual divestiture of the acquisition target. According to W. T. Grimm & Co., a firm that specializes in mergers, one-third of all mergers are later undone. Moreover, divestiture activity seems to be accelerating; Grimm reports that the number of divestitures reported since 1980 has increased by 35%, involving 900 divestitures worth $29.4 billion. Booz, Allen and Hamilton observes that many of the most active acquirers have also been the most active divesters. For example, one company that made over 40 acquisitions in the last decade sold 20 of them during the same period.

Finally, a number of financial studies of the benefits of mergers have been conducted. These studies tend to be somewhat more systematic in sampling and methods than the studies reported above. The general pattern of the evidence suggusts that on the average there is no significant change in the performance of the acquiring firm following mergers, although the acquired firm often earns significant returns from the merger.

Considerable evidence, then, argues that a high percentage of mergers and acquisitions are unsuccessful. However, this track record has not led to a reduction in corporate mergers and acquisitions. As Majaro (1981) comments, "Managers suffer from amnesia when they plunge into the (merger) arena."

<u>Why is Organizational Culture Important in Mergers and Acquisitions?</u>

Increasingly, the clash between the culture of the acquired organization and the acquiring organization is being identified as a major cause of acquisition failure. Recent academic case studies of mergers and acquisitions have focused on cultural differences in explaining difficulties in the merger and acquisition process. The business press has also begun to focus on cultural explanations. Two case examples illustrate the potential importance of culture clash in disrupting acquisitions. The first case is Fluor Corporations's "white knight" acquisition of St. Joe Minerals Corporation in 1981. Although both companies were reputed to have first-rate management, their cultures were undeniably different. St. Joe's relatively lean headquarters organization ruled with a light hand, while power resided with a huge staff at Fluor. Fluor maintained a fleet of aircraft for its staff; conversely, St. Joe did not even have a limosine for its Chairman. The St. Joe operation was small and tight, almost like a partnership. Unlike Fluor, St. Joe could make decisions very quickly.

Initially, Fluor allowed the mining company much greater autonomy than might have been expected, given its culture. For example, requests for any non-routine information from St. Joe by Fluor personnel had to be cleared by one of two top Fluor executives. Gradually, however, Fluor went to the opposite extreme, and St. Joe's autonomy faded. The trend was accelerated by a worsening financial situation at both St. Joe and Fluor that resulted from weakened markets. It became difficult to support two separate staffs. When the St. Joe staff did not appear to move as fast as Fluor wanted, Fluor managers took control. Ironically, Fluor has recently become more decentralized, and its culture is growing more like St. Joe's in response to hard times.

The second case is the friendly acquisition several years ago of one consumer products company (we will use the pseudonym "Hammer, Inc.") by another major consumer products company (we will use the pseudonym "Appliances, Inc."). Although managers of both firms used some of the same words to describe their values, they spoke essentially different languages. A key example of how such cultural differences influenced the integration process at Hammer,Inc. involves how product quality was understood in the two companies.

The emphasis on quality by Appliances, Inc. reflects its strong marketing culture, with customer loyalty built on product quality. Quality is broadly conceived; the espoused "total quality" approach is intended to insure that Appliances, Inc. is seen by outsiders as a "first-class operation" in every way. As in IBM and other marketing-oriented firms, the emphasis is on looking good while doing well. As in General Electric, top management is dedicated to being number one or number two in every market it enters, and the businesses receive heavy investment in order to develop products that will build or maintain market share and margins.

The meaning of quality at Hammer, Inc. reflected its position in a commodity segment of its market. As a commodity firm, it competed mostly on price; quality meant adherence to uniform, generic product standards. Appliances, Inc. managers felt that there were opportunities for Hammer, Inc. to earn higher margins by developing new, premium products. However, Appliances, Inc. found it very difficult to transfer the concept of marketing quality brands for a premium price, despite training and coaching for

Hammer, Inc. managers. Managers in the acquired firm felt that they already produced "quality products."

Other differences arose from Hammer, Inc.'s view that low profit margins should be raised by increasing production volume and reducing costs, rather than by investing in costly capital equipment or in marketing -- steps that were central to the total quality concept at Appliances, Inc. The acquiring company's managers knew that capital investment had been low, but they were surprised to see for themselves the condition of capital equipment. To Appliances, Inc. managers, the need for more investment was obvious, even if it raised costs in the short run.

Appliances, Inc. managers found that such cultural differences hampered their ability to help Hammer, Inc. resolve its operational and financial problems -- and thus interferred with their ability to recoup their investment in Hammer, Inc. The difficulties of integrating Hammer, Inc. led senior Appliances, Inc. management to rethink how they went about making acquisitions and integrating them into the parent firm. In a later section, we describe a more recent and more successful acquisition by the company that explicitly took organizational cultures into account.

One key problem in some acquisitions, then, appears to be ineffective management of cultural integration. In order to better understand this position and its implications, however, several points need to be considered in more detail. We will discuss: (1) a working defintion of organizational culture; (2) the role of human resource managers in managing organitional culture and cultural integration; and (3) avoiding trouble spots in the management of cultural integration.

WHAT IS ORGANIZATIONAL CULTURE?

We cannot answer the question of whether managing cultural integration can enhance the chances for effective acquisition until we understand the nature of organizational culture. The term "organizational culture" is used in many different ways by researchers and practitioners. However the term is used, most observers agree that the phenomenon of culture is complex and difficult (some say impossible) to manage. This means that there is no simple definition of organizational culture, and that it is important to fully specify what is meant by the term organizational culture.

Some researchers and practitioners suggest that organizations should be conceptualized as cultures. They favor the view that culture is something an organization is, rather than something an organization has. Those who argue that culture is a socially constructed system of shared beliefs and values would find it inconsistent to think of systematically developing or attempting to control the phonomenon. As Karl Weick put it: "Organizations don't have cultures, they are cultures, and this is why culture is so difficult to change."

However, other researchers and managers, particularly those searching for predictable means of organizational control and improved methods of management, hold the belief that culture can to some degree be managed. This view of organizational culture stems from the belief that organizations produce culture. Culture is defined as the social or normative glue that holds an organization together. Culture can be thought of as a magnet which holds a company together through shared patterns of meaning. We will adopt this perspective on culture.

Edgar Schein has identified three levels of culture: basic assumptions, values, and artifacts. We will add a fourth category, perceptions of management practices. Artifacts and practices express values. Underlying those values are even deeper assumptions, which Schein has argued, exist at a preconscious level of awareness. Basic assumptions are extremely difficult to study or to change. Therefore, we will focus our discussion on three components of culture: values, artifacts and practices.

Espoused and Inferred Values. Espoused values are those values which employees say they believe in. Espoused values are communicated directly. For example, top management might espouse values through a statement of corporate objectives or management philosophy. Such values define the basic philosophy or mission of the company.

Sometimes the espoused values of top management concern technical issues. For example, Ken Olson, the founder and President of Digital Equipment Corporation, has said "Our job is to make a good product. Growth is not our primary goal. After making good products, growth is a natural occurence." Espoused values also can be financial in nature. An underlying value at Data General is espoused to be "We're in this business to make money. It just so happens that the computer business is the best way to do that. But if we could make more money selling rye bread, we should consider doing that." Often the espoused values are humanistic and emphasize the importance of people and customers. Espoused values of this type are embodied in Dana Corporation's slogan, "Productivity through people," and IBM's "IBM means service" and "Respect for the individual." DuPont's "Better things for better living through chemistry" and General Electric's "Progress is our most important product" are other examples of espoused values which may help to shape the way people interact and process information about the organization.

If espoused values reflect what employees say, inferred values are those values which are inferred from employee behavior and from the second and components of culture: cultural artifacts and employee perceptions of company practices.

Cultural artifacts. Cultural artifacts, the second component of culture, are indirect, implicit, and subtle means of expressing values. Such artifacts include jargon or a special language, organizational stories, rituals and ceremonies, and humor. Although people often consider these to be unimportant, cultural artifacts can be the key to understanding employees' reactions to the espoused values of top management.

A special language or jargon is one of the most common cultural artifacts. Jargon is a vocabulary that is comprehensible only to encultured employees. Jargon is composed of words or phrases that express both cultural values and technical issues.

Humor is another cultural artifact. Frequently, jokes specific to an organizational context make fun of cultural outsiders, specifically members of competing firms or employees who fail to conform to company norms. When employees laugh at such jokes, they are demonstrating the distinction between cultural insiders and outsiders. When people who are not employees of the company hear these jokes, the jokes usually do not seem very funny. Jokes, like jargon, create a boundary between cultural initiates and those who are not initiated.

Values also can be inferred from another cultural artifact, organizational stories. An organizational story is defined as a coherent event or short sequence of events based on organizational history, concerning the company or its representatives, and known or shared by a group within the company. Such stories have heroes, frequently the founder or top executives of the firm. An organizational story consists of the story text and an underlying moral or message. Values can be inferred from each of these two parts.

Inferred values also are transmitted through rituals and ceremonies. Rituals are behavior patterns which are formalized or stylized and which are repeated in that form. Employees at many corporations, for example, infer the importance of individual employees and their families from the ritual of the annual company picnic or retirement dinners. Not coincidentally, these rituals usually include activities like dancing, drinking, or informal chatter about families. These rituals act as status equalization activities, which temporarily ease, and sometimes even reverse the usual status differentials between high and low level employees.

Finally, many facets of organizational life can have symbolic meaning. The design of the workplace, employee dress, executive "perks" such as reserved parking places or access to a corporate jet all can act as symbols which communicate values. Values can be inferred from the shared interpreta tion of the meaning of such symbols. For example, the CEO of Versatec, Inc., an electronics equipment manufacturer, personally helped to design his company's main building. He communicated values of open, rapid, and direct communications through open space office arrangements and by banning locks on the few offices which had doors.

<u>Employee Perceptions of Company Practices</u>. Values can also be inferred from the third component of culture, employee perceptions of company practices, that is the everyday activities of the managers of the company. The most enduring and impactful practices are a firm's human resource system. Specifically, such practices include selection procedures, training programs, performance appraisals, compensation, and promotion procedures. Management may espouse a set of values which are incongruent with employee perceptions of the values being expressed and reinforced by

management practices. This would result in espoused values and inferred values being in conflict. On the other hand, management's espoused values may, in fact, be reinforced by the values expressed through company practices.

Although values can be easily expressed through human resource systems, other practices can also be used to communicate cultural priorities. The list is endless, but includes how time is allocated on the agendas for meetings, whether a subordinate takes all problems up through the channels, how long an employee must wait to get an appointment with his or her boss, or even whether an appointment is necessary at all. Employees read the value-laden signals implicit in practices such as these.

Organizational culture, then, is a multi-dimensional phenomenon. The first component consists of shared values, both espoused and inferred. Espoused values are those values in which employees say they believe, while inferred values are implicit in the second and third components of culture, cultural artifacts and employee perceptions of company practices. Table 1 presents a summary of the elements of culture.

<u>The Structure of Culture</u>. A distinction needs to be drawn between an organization's dominant culture and the various subcultures that may coexist with it. A dominant culture expresses core values that are shared by a majority of the organization's members. Three types of subcultures have been identified: enhancing, orthogonal, and counterculture.

An enhancing subculture would exist in a subgroup of the organization in which adherence to the core values of the dominant culture would be more fervent than in the rest of the organization. In an orthogonal subculture, the members would simultaneously accept the core values of the dominant culture and a separate, unconflicting set of values particular to themselves.

For example, an accounting division and a marketing department may both endorse the values of their firm's dominant culture, while creating separate sets of values related to their functional units. The accounting department may endorse "going by the numbers"; the marketing department, "creative problem-solving." The third type of subculture is a counterculture. The core values of a counterculture present a direct challenge to the core values of the dominant culture. A dominant culture and a counterculture exist in an uneasy symbiosis, taking opposite positions on value issues that are critically important to both of them.

Organizational culture, then, is highly complex. It is not hard to see why organizational culture is difficult to understand and manage. It is not enough, however, merely to know what culture is. If managers hope to use the concept of culture to help select potential acquisition targets or to help manage post-merger integration, they need to know how organizational culture can be diagnosed and managed. We will consider these issues next.

ROLE OF THE HUMAN RESOURCE FUNCTION IN MANAGING ACCULTURATION

The literature on mergers and acquisitions repeatedly recommends that the Human Resource function be involved as early as possible in planning the integration of the two organizations. The basis for this recommendation is straightforward. Human resource expertise must be brought to bear if the acquiring organization is to deal effectively with the complex human issues that often spell success or failure in mergers and acquisitions. HR expertise needs to be used at a point in time early enough to avoid mistakes in planning the integration process. Ideally, this point in time would be during the selection of acquisition targets.

There are several areas in which human resource expertise can be helpful in managing acculturation. These areas include understanding situationally specific needs, diagnosing culture, and managing perceptions of company practices.

Situation Specificity

The specific steps that should be taken in any particular acquisition should be determined by the business basis for the merger as well as by the culture of the acquiring firm. In some types of mergers, as when the acquiring company is interested only in the financial assets of a target company and expects to lay off most or all employees, extensive efforts to manage culture in the acquired firm are fruitless. In other situations, when a true corporate "marriage" is desired, attention to the management of culture is critical and a wide range of tools must be brought to bear. In another paper, the authors consider in detail how various types of acquisitions can be matched with different strategies for managing acquisition integration.

Culture Diagnosis

Assuming that the acquiring company does plan to manage culture in the acquired firm, cultural diagnosis of two kinds is important. First, the acquiring organization must diagnose its own culture, and it should do so prior to the search for acquisition candidates. So many tasks need to be completed in a short period following an acquisition that there is not enough time to conduct a cultural self-examination following an acquisition. Conducting a self-diagnosis ahead of time can inform the selection of acquisition targets, suggesting what cultural characteristics are most important to an acquiring firm, which characteristics it wants more of, and how possible acquisitions may present problems or may reinforce cultural characteristics and directions desired by the acquirer. Second, a diagnosis of the culture of target organizations should be conducted. The diagnosis can begin in preliminary form prior to the acquisition agreement, and can be conducted in earnest following the announcement of the deal.

Our discussion of the nature of organizational culture suggests that it is critical to diagnose both espoused values and inferred values (through cultural forms and perceptions of company practices), and to explore subcultures that may be present at different levels of the hierarchy and in different organizational subunits. Table 2 displays these categories in a matrix that can be used for organizing data about culture. A variety of complementary kinds of data, including ethnographic observation, in-depth interviews, archival data, and employee questionnaires are needed to diagnose culture.

Managing Perceptions of Company Practices

Much has been written about what HR professionals can do to facilitate the acquisition process. In an acquisition, the HR function obviously has a major role to play in designing and executing communication plans. In order to reduce acquired employees' fears and uncertainty, it is important to develop and communicate plans concerning policies about job security, career opportunities, and any special compensation for early retirement or layoffs that may be available. The HR function probably will help determine whether changes are needed in the training, labor relations, compensation, staffing, and other personnel policies and programs of the acquired firm. In some situations, it is desirable to help create special HR programs that reinforce acquisition goals. For example, in the General Motors - Hughes merger, "silver seat belts" were created to provide $250 million in financial incentives for the top 1000 managers, scientists, and engineers in Hughes to remain with the company for up to five years.

While all of these activities are important in themselves, it follows from our definition of organizational culture that these policies and practices also help to shape the nature of cultural integration between the acquired and acquiring firm. The way in which all the normal HR tools are used reflects the culture of the acquiring company, and symbolically displays the culture to employees in the acquired firm. For example, does the acquiring firm truly show concern for people in the way it is making and communicating merger-related decisions? Similarly, espoused values of decentralization, entrepreneurship, and innovation may be in conflict with attempts to impose the HR policies and practices of the acquiring organization on the acquired.

MANAGING ACCULTURATION: A CASE EXAMPLE

A recent acquisition provides an example of how an understanding of organizational culture can inform post-merger integration strategy. In this case, the acquiring firm made a conscious attempt to understand the culture(s) of the acquired company and to transmit its cultural values to the acquired company. The acquiring firm operates upscale family-oriented entertainment facilities (we will use the pseudonym "Movies, Inc."). The acquired firm (which we will designate by the pseudonym "Acme, Inc.") occupied a narrow niche of the entertainment business.

The acquisition was friendly. Both sides believed that the acquisition was mutually advantageous. Acme, Inc. lacked the capital needed to take advantage of growth opportunities. Movies, Inc. was willing to invest the needed capital in exchange for an opportunity to enter the new business. Both Movies, Inc. and Acme, Inc. were financially successful, catered to similar types of customers, espoused entrepreneurial and family-oriented values, took pride in their business success, and felt that they communicated well with their employees.

The president of Movies, Inc. requested the assistance of the corporate human resources staff group in developing a strategy for post-merger integration. With the staff group, the presidents of both companies reviewed alternative strategies and tactics. The alternatives ranged from operating Acme as a completely distinct, independent subsidiary (the conglomerate approach) to "love and marriage" — a true merger of the operations of the two companies. The presidents agreed that they wanted a strategy of "cooperative independence," which meant embracing reciprocity, mutual respect, caring, and mutual problem solving. The presidents also agreed that they would act as gatekeepers between their respective organizations during the transition period. Since both organizations were successful in their own right, there was no immediate need for quick "fixes." So, "hands off unless invited" was a message communicated to the staffs of the acquiring company; the integration process would be driven by top line managers.

A detailed plan for post-merger integration was developed. It included three elements:

- How the newly acquired business would be managed.
- How the transition would be executed.
- How individual employee concerns about job security and career advancement would be addressed.

In developing the process for implementing the plan, careful attention was paid to methods of communicating the cultural values of Movies, Inc. to the acquired company. Similarly, care was taken to demonstrate the acquiring company's respect for the culture of Acme. The implementation process began the day the merger was formally announced.

The public acquisition announcement was quickly followed by a formal communications meeting in Acme headquarters that was intended to transmit the rationale for the acquisition, and also to point out the cultural synergy and differences between the organizations. The meeting was designed as a major ceremony that would communicate values in direct as well as symbolic ways. Both employees and spouses were specifically invited to the meeting; this reinforced the espoused "family" value of both companies. Both presidents "brought out their best" with in-depth professional analyses and overviews of their businesses. The presentations emphasized the future expansion of the acquired company and the need for capital for their family to grow. Both presidents repeatedly mentioned quality services and products as a means of retaining and expanding market share.

Immediately following the question and answer period, a banquet was held for the employees and their spouses. The banquet was designed to facilitate culture transfer, especially the value placed on communication. Rather than a sit-down dinner, it was held as a stand-up affair to facilitate mixing and to increase the number of people the acquiring president could meet personally. Additionally, approximately ten other executives selected as organization al leaders and good communicators were present to answer questions. They previously had been briefed on specific answers to the questions most likely to be asked by ACme employees. These questions emphasized such issues as continued job security and opportunities for career enhancement. The support executives circulated and answered questions for as many employees and spouses as possible.

During the following week, employees were invited to attend voluntary, "one-on-one" communication sessions with the acquiring company's human resource staff. The sessions consisted of structured interviews to:

- Elicit personal concerns about the acquisition (pay, pensions, careers, etc.).

- Solicit cultural and subcultural artifacts, such as jargon, humor, history, and stories.

- Identify means of making the merger more successful for interviewees and their organizational subunits.

- Transmit cultural values and norms of the acquiring company on a more personal basis. Indeed, the sessions themselves were symbolic of the values of open communication and respect for the culture of the acquired firm.

Over 150 interviews were conducted and summarized anonymously. The summaries were made available to both presidents. The interview data were valuable not only in helping to manage the human side of the merger process, but also in helping Movies, Inc. to better understand the special business needs of Acme.

This acquisition of Acme has gone smoothly. Although -- inevitably -- there was employee stress and uncertainty surrounding the acquistion, in this case Acme employees did not appear to experience the common pattern of deep psychological trauma that has been termed the "merger syndrome."

MANAGING CULTURAL TROUBLE SPOTS

Acquiring organizations often find that the culture of an acquired organization is being poorly managed. Alternatively, the acquiring organization may attempt to change the culture of the acquired organization for any number of reasons. In either case, an important issue becomes "how can culture be managed?"

There are four predictable trouble spots in the management of corporate culture as depicted in Table 3. These may be issues in the culture of the acquiring organization, the acquired organization, or both. The four major trouble spots are: the absence of a clear and internally coherent set of espoused values; overreliance on direct methods of communicating values; a dysfunctional conflict between the espoused values of top management and the values being inferred from the actual practices of the firm; and the existence of pockets of ignorance and pockets of resistance. These problem areas will be discussed next.

Absence of Clear, Coherent Espoused Values

First, one of the most important and difficult tasks of top management is to decide what values should be shared, what objectives are worth striving for, and specifically what values should be espoused. Companies need a clear and internally coherent set of values. Without a clear set of values, employees can work at cross purposes. Without internal coherence, a set of espoused values can increase the confusion of employees.

Acquisitions can raise these issues in several ways. The acquired company may never have articulated its values in a clear and convincing fashion. In this case, it may be important for the acquiring organization to help the acquired company understand itself better in order to deal with issues of identity and acculturation that the acquisition process inevitably aises. Second, the espoused values of the acquired organization may be different from those of the acquiring organization. This seems to be very common in acquisitions. Differences in espoused values -- the ideals the organizations strive for -- set the stage for a conflict of cultures.

In different ways, the Hammer, Inc. and Acme, Inc. cases illustrate the importance of clearly espoused values for successful acquisitions. The values espoused by Movies, Inc. were similar to those espoused by Acme. It was relatively easy for the presidents of the two organizations to agree on both the values that should be espoused in the combined organization and the process by which these values would be communicated. This greatly facilitated integration of the acquisition into Movies, Inc. and especially faciliated communication with Acme employees about the implications of the acquisition. On the other hand, there were differences in the espoused values of Hammer, Inc. and Appliances, Inc. reflecting the orientation of Hammer toward commodity production and of Appliances toward marketing. These differences were reflected in the meaning of basic terms such as "quality." The different values were a major source of conflict in the acquisition. Appliances, Inc. went to great lengths to insure that the differences were understood by Hammer managers. This was a necessary step in changing the culture of Hammer in a direction that presented additional business opportunities.

<u>Overreliance on Direct Methods of Communication</u>

If top management has selected a clear and coherent set of values, it needs to communicate those values to employees in a memorable and convincing fashion. Many managers prefer direct methods of communication; if they have something to say, they say it. Such direct methods of communicating values are often reacted to with skepticism and may be dismissed by employees as corporate propaganda. Managers who rely heavily on direct methods of communicating their espoused values run the risk of being ignored or disbelieved. Indirect methods of communicating values can be more effective in having employees remember and believe what is being said. Indirect methods include the use of cultural artifacts and management practices, as described above, to convey value messages.

It is important to use both direct and indirect methods of communicating the values of the acquiring organization to members of the acquired company. Employees of the acquired firm are likely to experience a great deal of anxiety and uncertainty following the merger, and will want to hear directly what the new management stands for -- even if they prefer to "wait and see" whether the new management acts in a manner consistent with its espoused values. Indirect methods of communication are especially important in this situation, however. Employees of the acquired organization are likely to be unusually alert to signals from the acquirer, and may read more into specific behaviors than is appropriate.

The Acme, Inc. case suggests ways in which communication about the acquisition can be managed to transmit cultural values, both directly and indirectly. For example, there is little doubt that the espoused value of "family" was communicated in a far more memorable fashion by demonstrating it, via invitations to spouses to attend the communications meeting, than by simply verbalizing it.

Discrepancies Between Espoused Values and Inferred Values

Discrepancies between espoused values and the values being expressed through cultural artifacts and practices can be dysfunctional. When management espouses values that are not translated consistently into management practices, employees can be put into a double bind. They cannot trust what management says and they do not know whether to translate espoused values into action. In such cases, the discrepancy can easily be dysfunctional for employees at all levels of the firm, causing a kind of cultural schizophrenia. Again, employees can be expected to be unusually alert to apparent discrepancies during the acquisition process.

The acquisition of Rolm by IBM provides a good example of sensitivity to this pattern. A general manager of a sales unit eliminated free coffee as part of an effort to trim costs, but reversed the decision when employees blamed IBM, to avoid sending the wrong signals to a workforce that was highly concerned about losing its culture.

Pockets of Ignorance and Resistance

Fourth, employee reactions to management's espoused values and the values being expressed and reinforced through cultural artifacts and company practices may lead to pockets of ignorance or pockets of resistance. If employees are unaware of the values of top management, a pocket of ignorance will arise. If, however, employees are aware of the values, but do not agree with them, a pocket of resistance may be created. Within this pocket of resistance, subcultures may develop that focus on values conflicting with the values of the dominant culture. The first step in dealing with these problems is to determine where in the organization pockets of resistance and ignorance are located. The next step is to determine the source of the problem and deal with it accordingly.

Acquisitions can complicate the normal political dynamics that are associated with attempts to decrease pockets of resistance to the organization's culture. Rival factions are likely to see different risks and opportunities in the acquisition. In particular, those residing in pockets of resistance may see opportunities to gain strength by alliance with the acquiring organization, especially if their values are more closely aligned with the values of the acquiring organization than are the values of the dominant culture in the acquired organization. The degree to which the acquiring organization may attempt to exploit these dynamics in a "divide and conquer" strategy will depend largely on the methods of acculturation used.

A recent example of managing culture in order to avoid pockets of resistance is the case of Unisys, the company that resulted from the merger of Burroughs Corporation and Sperry Corporation. Michael Blumenthal, Chairman and CEO of Burroughs, felt that it was critical to have a true merger of the operations of the two companies in order to retain customers as well as the best talent from both companies. One key concern was that dysfunctional pockets of resistance not develop around the cultures of the two merger partners. Thus he and other managers took a number of actions to establish that the interests of "Newco," the temporary name for the combined companies, took precedence over narrower political interests of either Burroughs or Sperry. He developed a superordinate goal that employees of the combined organization could rally around, namely a crusade against IBM. A transition team of top managers from both companies and 13 middle mangement task forces representing both companies worked from June through September 1986 to recommend ways of combining Burroughs and Sperry. Then, as described in a recent article by Bro Uttal in Fortune,

> . . . when Blumental met with the task forces last September to hear their reports, he went along, producing boxes of symbols--baseball caps bearing both the Burroughs and Sperry logos. Whenever a manager started building up one company at the expense of the other, Blumental would bark, "Put on your Newco hat." The phrase became a slogan to defuse rivalry.

Finally, top management made it clear that people who attempted to protect turf would be dismissed.

<u>The Acculturation Process in Perspective</u>

We have discussed various ways in which culture can be managed in an acquisition situation, but a caveat is necessary. Organizational culture can be a powerful force in shaping organizational behavior, but by its nature it is difficult to understand, diagnose, and manage. Cultural analysis requires analytic skills as sophisticated as those required for financial analysis, but managers tend to have less skill in understanding culture than in understanding financial results. Diagnosing organizational culture takes time--a few months at a minimum. The necessary diagnostic data may be difficult to obtain if those in the acquired organization feel hostile to or threatened by the acquiring organization.

Managing organizational culture takes even more time. Culture changes relatively slowly in the best of circumstances, since a culture change involves a rethinking of the most basic assumptions about the organization. There is no guarantee that the members of the acquired organization will support the types of changes desired by the acquiring organization, no matter how sensible such changes appear to the acquiring company. Certainly, changing organizational culture is difficult and somewhat uncertain.

CONCLUSION

Our discussion of organizational culture has suggested that mergers or acquisitions may succeed or fail as a result of cultural factors that the acquiring organization often fails to anticipate. Organizational culture is a complex, multi-level phenomenon that is difficult to understand and manage. A variety of tools are available for managing organizational culture. We suggest that these can be helpful in addressing four key areas in which difficulties are likely to arise during attempts to integrate acquisitions.

The Human Resource function can play a critical role in helping to address cultural issues from the start of the acquisition process. We are advocating a structural approach to the management of cultural issues. The key issues must be systematically considered and there should be a deliberate planning process if the issues are to be addressed in a way that appropriately meets the needs of each situation.

TABLE 1

ELEMENTS OF ORGANIZATIONAL CULTURE

1. CONTENT OF CULTURE

   - Espoused Values

   - Inferred Values

2. CULTURAL ARTIFACTS

   - Jargon

   - Stories

   - Humor

   - Rituals and Ceremonies

   - Other Symbols

3. PERCEPTIONS OF COMPANY PRACTICES

   - Perceptions of Human Resource Practices

   - Perceptions of Management and Employee Behavior

TABLE 2

FRAMEWORK FOR DIAGNOSIS OF ORGANIZATIONAL CULTURE

	ESPOUSED VALUES	CULTURAL ARTIFACTS JARGON, STORIES, RITUALS, ETC.	PERCEPTIONS OF COMPANY PRACTICES
TOP EXECUTIVES			
MIDDLE MANAGERS			
LOW LEVEL MANAGERS			
NON-SUPERVISORY EMPLOYEES			
SUBUNIT ONE (FUNCTIONAL OR PRODUCT BASED)			
SUBUNIT TWO (FUNCTIONAL OR PRODUCT BASED)			
ETC.			

TABLE 3

TROUBLE SPOTS IN CULTURAL INTEGRATION

1. ABSENCE OF CLEAR, INTERNALLY COHERENT ESPOUSED VALUES
2. OVER-RELIANCE ON DIRECT METHODS OF COMMUNICATING VALUES
3. CONFLICT BETWEEN ESPOUSED VALUES AND ACTUAL PRACTICES
4. POCKETS OF IGNORANCE AND RESISTANCE

Selected Bibliography

Recent work on mergers and acquisitions has acknowledged the importance of the process in determining the effectiveness of merger activity. David Jemison and Sim Sitkin describe critical aspects of the process in "Acquisitions: The Process Can Be A Problem" (Harvard Business Review). "When Cultures Collide: The Anatomy of a Merger" (Human Relations, Volume 38, 1985) by Anthony Buono, James Bowditch, and John Lewis describes an extended case study of a merger between two banks from the perspective of organizational culture. Gordon Walters in "Cultural Collisons in Mergers and Acquisitions (in Organizational Culture, Sage Publications, 1985) describes what happens to an organization and to its culture when another organization's culture is superimposed as a result of a merger and acquisition. Philip Mervis has written extensively in this area including "Negotiations After The Sale: The Roots and Ramifications Of Conflict In Acquisitions" (Journal of Occupational Behavior, 1964) and with Amy Sales, "When Cultures Collide: Issues in Acquisition" (in New Futures: The Challenge of Managing Corporate Transitions, Dow Jones - Irvin, 1984).

In addition, there has been an explosion of interest in the area of organizational culture, generally. In Organizational Culture and Leadership (Jossey-Bass, 1985), Edgar Schein presents his definition of culture as well as the impact of the founder on the culture of the firm. Subcultures are the focus of work by John Van Maanen and Stephen Barley in "Occupational Communities: Culture and Control in Organizations" (in Research in Organizational Behavior, Vol. 6, JAI press, 1984) and by Joanne Martin and Caren Siehl in "Organizational Culture and Counter Cultures: An Uneasy Symbolisis" (Organizational Dynamics, Autumn, 1983). Finally, for an excellent sampling of papers about a wide range of cultural phenomena, including organizational stories, jargon, rituals, humor, and practices, see the collection edited by Peter Frost, Larry Moore, Meryl Louis, Joanne Martin, and Craig Lundberg, Organizational Culture (Sage Publications, 1985) and the collection edited by Louis Pondy, Peter Frost, Gareth Morgon, and Thomas Dandridge, Organizational Symbolism (JAI Press, 1983).