# THE EFFECTS OF POST-M&A CULTURAL CHANGE IN ORGANIZATIONS ON INDIVIDUAL AND ORGANIZATIONAL PERFORMANCE

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## ABSTRACT

With unremitting change and intense competition, nowadays companies in Turkey are increasingly turning to be users of M&A as a tool to grow, build synergy, attain local/global presence, enter into new sectors, or achieve economies of scale and scope. However, it is too bad that they are usually not very good at wielding this tool successfully. Previous research yielded that good management of change related with human side of M&As, particularly the culture factor, has deterministic role in achievement of post-M&A success. Based on this backdrop, the major aim of the current study is to examine the effects of post-M&A culture change on individual and organizational performance outcomes. Survey method was used to gather responses of a purposeful convenience sample of employees (N=154), which went through an M&A process. An organizational culture inventory (DOCS), a personality inventory (NEO), a political skills inventory, and questions assessing perceptions of employees about pre and post-M&A organizational and individual performance were used to gather data. The findings of this study indicate that the strength of organizational culture significantly changes after M&As.

**Keywords:** Mergers&Acquisitions, Individual Performance, Organizational Performance, Organizational Culture, Organizational Behavior, Personality

# BİRLEŞME ve SATINALMA YAŞAMIŞ ÖRGÜTLERDEKİ KÜLTÜREL FARKLILIKLARIN ÇALIŞAN ve KURUM PERFORMANSINA YANSIMALARI[1]

## ÖZET

Hızlı değişim ve yoğun rekabetle birlikte, büyümek, sinerji oluşturmak, yeni sektörlere girmek için günümüzde Türkiye'deki şirketler de bir araç olarak birleşme ve satın almaya (M&A) yönelmektedir. Önceki araştırmalar, birleşme ve satın almalarda insan faktörünün (özellikle örgütsel kültür faktörüyle ilgili kısmın), birleşme ve satın alma sonrası bireysel ve şirket performansında belirleyici rolü olduğunu ortaya koymuştur. Buna dayanarak, bu çalışmanın temel amacını M&A sonrası bireysel ve kurumsal performans sonuçları üzerinde örgütsel kültür değişikliğinin etkilerini araştırmak oluşturmaktadır. Birleşme satın alma sürecinden geçmiş olan ve çalışmanın amaçlı kolaylık örneklemini oluşturan 154 çalışanın görüşleri anket yöntemiyle toplanmıştır. Veri toplama araçları olarak bir örgütsel kültür envanteri (DOCS), bir kişilik envanteri (NEO), bir politik beceri envanteri ile örgütsel ve bireysel performans verilerini toplamak için benzer çalışmalarda kullanılan sorulara dayalı, çalışanların performans algısını ölçen sorular kullanılmıştır. Bu çalışmanın bulguları, birleşme ve satın almalardan sonra örgüt kültürünün önemli ölçüde değiştiğini göstermektedir. Ancak, birleşme ve satın alma önce ve sonrasında bireysel performans arasında önemli fark saptanmamıştır. Benzer şekilde çalışanların birleşme ve satın alma öncesi ve sonrası kurumsal performans değerlendirmeleri arasında da önemli bir fark bulunmamıştır. Beş kişilik boyutundan M&A öncesi dönemde sadece açıklık boyutu,  M&A sonrası dönemde ise sadece dışa dönüklük boyutu moderatör etki göstermektedir. Bu moderatörler, yalnızca uyum kültür alt tipi ile ile etkileşmişlerdir. Çalışanın politik becerileri önemli bir moderatör olarak ortaya çıkmamıştır. Sonuçlar tartışılmış ve gelecekteki araştırmalar için öneriler bu çalışmanın kısıtları ışığında ortaya konmuştur.

**Anahtar Kelimeler:** Birleşme ve Devralmalar, Bireysel Performans, Örgütsel Performans, Kurumsal Kültür, Örgütsel Davranış, Kişilik

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**INTRODUCTION**

Mergers and acquisitions (M&A) are strategic options for companies to attain the purposes such as growth, synergy, local/global presence, diversification, economies of scale and scope. Usually, companies imitate other companies while making an M&A decision.

Corporate mergers and acquisitions, which occur periodically in spurts followed by resting periods, are ever more usual in today's business. Companies seek competitive advantage through growth, consolidation, and access into new markets. When they are faced with opportunities or problems within business, companies may think of M&As due to a number of expectancies such as reduced costs, logistics efficiencies, and achievement of strategic objectives. M&As are often regarded as synergistic organizational changes, which bring about the combination of dissimilar systems into one system to get a greater return than the combined parts (Field & Peck, 2003).

In the last 25 years, there have been so many M&As between similar (related mergers) or dissimilar companies (unrelated mergers) in the business market, since M&As give access to competence and local intelligence base without burden of starting up from scratch (Teerikangas and Very, 2006). Previous research demonstrated that over 50% of all mergers fail, which is a very somber sight of business partnering, considering the vast numbers of M&A projects in process (Vermeulen, 2008). According to Hay-Group Report (2007) grounded on 200 interviews with top-executives of companies which underwent M&A during the past three years (2007 backwards), only 9% of mergers could live up to their initial financial prospects. Many problems might be hidden behind these disappointing results, including selection of an inappropriate partner (usually due to hit-or-miss selection without a detailed due-diligence process) or merging at the wrong time. Another reason of failure is related to mismanagement of the post-integration process properly. Corporate culture of an organization is among the main concerns of researchers, who search for the reasons behind the failure of M&As (Mitleton-Kelly, 2006). Studies have uncovered that the adoption of an appropriate culture for the new establishment will indispensably improve business results and performance outcomes in the post-M&A organizations (Barney, 1996).

When a company gives an M&A decision, the most important aspects of the other company are usually its financial and market situation. Bringing two organizations together with diverse backgrounds, and ways of doing business will certainly lead to cultural change (DiGeorgio, 2003). In failed M&As, leadership might have deficiencies in understanding the employee-issues and organizational-culture issues in the partnering organizations, which vitally differ and therefore need to be carefully handled. Mismanagement of these differences generates post-M&A underperformance and impedes the achievement of a plausible amount of success, which was envisaged in the pre-M&A period.

Yet, organizational culture is habitually ignored as an important variable in the due diligence phase of mergers and acquisitions Kaplan and Norton (2004) stated that corporate culture could be either a barrier or an enabler of company and employee performance and that making the merger a fruitful strategic fit requires changes in the way business is conducted.

Cultural issues within the organizations contain dissimilar and generally inappropriate elements, which produce a post-merger and acquisition failure of cultural integration and failure to encounter predicted amount of successful results. Without this consciousness, employee concerns and cultural dissimilarities can lead to organizational performance issues.

## 1. DEFINITIONS AND TERMS

An acquisition can be defined as a company's overtake of another company, by obtaining at least 50% of its shares. A merger, on the other hand, is a fusion of equal-sized companies, where neither party can obviously be seen as the acquirer. Acquisition is a takeover of a target (i.e., usually smaller and less well-off organization) by the purchasing organization (Lajoux, 1998). However, sometimes a smaller company will acquire control of a larger or longer-established company and retain the name of the latter for the new enterprise. Then it is called a reverse takeover. Acquisition and merger are literally identical and can be used interchangeably. The difference between a merger and an acquisition has become more and more fuzzy especially in terms of the final economic result, even though it has not completely vanished in all circumstances.

Organizational Culture is composed of the essential values, beliefs and principles that serve as a basis for an organization's management system, as well as the set of management practices and behaviors that both validate and strengthen those fundamental principles. Culture is the commonly shared social understanding, resulting in commonly held assumptions and views of the world among organizational members (Schein 1983).

Denison's organizational culture model is a model of organizational culture and effectiveness based on four traits of organizational cultures; involvement, consistency, adaptability, and mission. Denison believes that culture can be studied as an essential part of the adaptation process of organizations and that specific culture traits may be predictors of performance and effectiveness. Each of the above-mentioned four cultural traits showed significant positive association with a wide range of both subjective and objective measures of organizational effectiveness (Denison & Mishra, 2005).

Mission Culture is having a clear sense of purpose that allows them to define their goals and strategies and to create a persuasive vision of their future. A clear mission provides purpose and meaning by defining a compelling social role and a set of goals for the organization. Leaders play a critical role in defining mission, but a mission can only succeed if it is well-understood from top to bottom.

Adaptability culture in organizations is to do with having a strong sense of purpose and direction, which must be complemented, by a high degree of flexibility and responsiveness to the business environment. Adaptable organizations quickly translate the demands of the organizational environment into action. However, organizations with a strong sense of purpose and direction are often the least adaptive and the most difficult to change.

Involvement culture is empowering and engaging people, building the organization around teams, and developing human capability at all levels. Organizational members are highly committed to their work, and feel a strong sense of engagement and ownership. People at all levels feel that they have input into the decisions that affect their work and feel that their work is directly connected to the goals of the organization.

Consistency culture is related with having integration and consistency within an organization. Behavior must be rooted in a set of core values, and people must be skilled at putting these values into action by reaching agreement while incorporating diverse points of view. Consistent organizations have highly committed employees, a distinct method of doing business, a tendency to promote from within, and clear behavioral guidelines. This type of consistency is a powerful source of stability and internal integration.

## 2. PURPOSE AND METHOD

The purpose of the study is:

• To examine the effects of post-M&A culture changes on individual and organizational performance outcomes.

The study attempted to focus on the following research questions.

• Do mergers and acquisitions create an organizational culture change within companies?

• What types of culture changes occur during M&As?

• Do these organizational culture changes affect individual and/or organizational performance?

### 2.1. SAMPLING

The population of this study consisted of employees who worked for the companies in Istanbul, which recently underwent a real Merger and/or Acquisition (M&A) process. The sample data were collected via a survey study. Participants were anyone from any organization in Istanbul, which went through an M&A (e.g. Birleşik Fon Bankası, Avea, Turk Telekom, and Finansbank employees). Purposeful snowball sampling method was used. The necessary condition for inclusion in the study was working in the organization both before and after the M&A for one year. Age and position in the company were not limited, since they were not related with the hypotheses in this study, and they were not important factors, which might change the interpretation of the results. The survey was applied in two ways: 1) Specific groups having the target characteristics (having experienced the M&A process, and working for the same company both before and after M&A for at least one year) filled in the questionnaires in parallel sessions in the organizational setting (purposeful sampling) 2) Specific people having a target characteristic (having experienced the M&A process) filled in the questionnaires online on Survey-Monkey. Being information-rich cases they had been referred by other participants (snowball sampling). Both male and female participants were included. Subjects were not given any incentives for their participation.

### 2.2. RESEARCH DESIGN

The study was based on quantitative research design. The data was gathered by survey method. A part of the research investigating the effects of culture change on performance examined numerous initial hypotheses based on literature, therefore the research design of that part was confirmatory. SEM (Structural Equation Modeling) was used to build a model based on a host of hypotheses looking into the relationships between Culture (IV) and Performance (DV). However, the questions regarding the moderating effects of political skills and personality on the relationships between cultural change and performance outcomes are new topics, not investigated before. Therefore, this part was intrinsically exploratory, trying to explore the relationships between post-M&A culture change (independent variable), personality and political skills of employees (moderating variables) and individual/organizational performance (dependent variables).

A pilot study was conducted to test the responses on a convenience sample of 30 respondents. Real data collection took place in 2010 and in 2011. The data was collected from various companies, which went through M&As lately. The questionnaire forms were administered either in parallel group sessions in the companies or sent by Surveymonkey

online system. Response rate was 77%. The necessary condition for inclusion in the dataset was working in the organization both before and after the merger and/or acquisition. Anyone from the organization at all education levels or ages who experienced the M&A process could take part in the study, irrespective of her/his position in the organization. Participants were not given any incentives for their responses. Basically, the participants answered the same organizational culture and performance questions thinking of pre-M&A and post-M&A period. Therefore they have two scores for these variables, one for pre-M&A one for post-M&A. However demographics, personality and political skills questions were answered without such twist. Three scales were considered for this study: Denison Organizational Culture Scale (DOCS) by Denison & Neale and Political Skills Scale by Ferris are two widely used research tools with high reliability and validity. NeoFFI (60 items) is also used and it is currently one of the most popular personality measurement tools at global level. Organizational performance was measured by seven questions originally being a part of DOCS. Individual performance was measured by three questions formed by the researcher. The total number of questions in the survey was around 160, except the questions assessing demographics. The study took place in recently merged or acquired companies.

## 3. RESULTS

154 working people have participated in the study. Gender was almost equally distributed among men and women.

**Table 1.** Gender Distributions of Participants

| GENDER | Frequency | Percentage |
|--------|-----------|------------|
| Female | 84 | 54,5 |
| Male | 70 | 45,5 |
| Total | 154 | 100 |

All of the participants were working people who have experienced an M&A within their organization. The sectorial distribution of participants is described in the table below.

**Table 2.** Sectorial Distributions of Participants

| SECTOR | Frequency | Percentage |
|--------|-----------|------------|
| Finance | 86 | 55,8 |
| Production | 14 | 9,1 |
| FMCG | 10 | 6,5 |
| Food | 10 | 6,5 |
| Logistics | 6 | 3,9 |
| Pharmaceuticals | 15 | 9,7 |
| Other | 13 | 8,4 |
| Total | 154 | 100,0 |

Employees from finance sector composed the majority of participants, followed by production (=manufacturing) and pharmaceuticals sector employees.

A paired-samples t-test was conducted to compare the composite culture scores of organizations before M&As (M = 190,03; SD = 20,268) and the composite culture scores of organizations after M&A (M = 178,28; SD = 18,615). There was a significant difference, t (153) = 4,131, p = 0.00. This finding suggested that M&A culture scores went significantly lower in the post-M&A period. This also meant that M&A process led to a change in the strength of culture subtypes, which was reflected in the decrease of previously experienced subcultural elements.

**Table 3.**Comparison of Culture Scores in Pre and Post-M&A

| | N | Mean | St. Dev. | t value | p value |
|---|---|---|---|---|---|
| Culture 1. Measurement | 154 | 190,03 | 20,268 | 4,131 | ,000 |
| Culture 2. Measurement | 154 | 178,28 | 18,615 | | |

Based on the results above H1 was accepted. Therefore, it is true that The strength of organization's culture changes significantly after M&As.

Individual and organizational performances were measured. The perception of employees' individual and organizational performance before and after M&As were asked using ten questions. A paired-samples t-test compared the ratings of employees' perceptions of self-performance both before and after M&A. The analysis of individual performance showed that there was an insignificant difference in the ratings for individual performance before M&As (M = 10,35, SD = 1,872) and individual performance after M&As (M = 10,2; SD = 1,652); t (153) = 0,722, p = 0,472. Statistical analysis showed that employees perceive their performances nearly the same in pre and post-M&A era.

**Table 4.** Comparison of Individual Performance in Pre and Post-M&A

| | N | Mean | St. Dev. | t value | p value |
|---|---|---|---|---|---|
| Individual Performance 1. Measure | 154 | 10,35 | 1,872 | ,722 | ,472 |
| Individual Performance 2. Measure | 154 | 10,20 | 1,652 | | |

## 4. DISCUSSION

Merging cultures of two different organizations mean aligning and compromising the deeply rooted values, norms, beliefs, attitudes, rituals and symbols arising from the history of the founders, and elaborated by each new top management. Therefore, culture forcefully affects behavior, and it is really hard to change behavior instantaneously with the merger event that happens at a point in time. Although a company's most expensive asset is its people, and culture is a people plan to invest in and grow that asset (Addante, 2012), it is usually disregarded when M&A deals are planned. Therefore, to achieve good performance in the post-M&A, the merger of two companies should encompass an initiative to combine two different people plans, as well.

Sathe (1985) argues that a culture may be strong or weak. If it is strong, behavior is intensive and there are far too much clearly ranked shared assumptions. In other words, a strong culture is homogenous, simple and has clearly ordered assumptions. Weber and Camerer (2003) suggest that detachment from cultural commonality amongst the integrated organizations' members leads to merger failures. Companies usually disregard the

relationship between organizational culture and performance outcomes when giving decisions about M&As.

A company's history, change-management expertise and skills (including adaptation to change or adoption of novelties), management style (e.g. authoritative-permissive, centralized-decentralized) power distance, policy setting, human resources approaches, and budgeting conventions are all components of its culture and also tightly tied to employee and organizational performance (Miller, 2000).

A successful merger can unquestionably create huge value. According to Hay-Group Report (2007), only 9% of 200 senior business leaders who had experienced a major merger or acquisition during the past three years told that their mergers could fulfill all their initial expectations at the time of M&A deals. Hay-Group's research reveals that most executives focused on integrating their tangible assets such as P&L accounting, IT and procurement systems and functions such as HR, marketing and finance. However, only very few companies attempted to identify or mitigate the risks to intangible assets – which Hay-Group research proves to be one of the two key determinants of M&A success. Realizing a marriage of organizational cultures, according to the report, would make the difference between high productivity & financial profits on the one side and decreased productivity & costly financial collapse on the other side.

This study emphasized the importance of organizational culture, and the moderating effects of employee personality and political skills on the relationships between organizational culture and performance in M&As. Findings of this study confirmed earlier studies in showing again that M&As produce cultural change in the organizations (Sorensen, 2002). This study also revealed that the decision makers should observe change, since it has an impact on individual and organizational performance. Below is the discussion of the hypotheses testing and related findings:

The first hypothesis was H1. The strength of organization's culture significantly changes after M&As. This hypothesis was accepted. Statistical analyses revealed the following: Involvement culture scores drop down significantly after M&As. This is quite in accord with expectations. Involvement culture deals with the internal dynamics of an organization. It does not address the communication with other companies or clients. Its components are team orientation, empowerment and capability development. In depth analysis indicated that companies teamwork-orientation decreases very significantly after M&As. According to Denison's model, involvement is about human capacity, ownership, and responsibility: It responds to the question Are our people aligned and engaged? Successful organizations delegate to their employees, build their organizations around teams, and develop human capability at all phases. A system oriented toward involvement will introduce more variety, more input, and more possible solutions to a given situation. Since involvement scores decrease after mergers, it would be difficult to get sufficient input from employees to solve problems. Therefore the finding indicating major change (drop) in team orientation is very meaningful. In the turmoil of M&As, team spirit should be kept alive with constant hands-on efforts of the management. However as stated earlier, most leaders disregard and bypass cultural components in M&As, thinking they are irrelevant elements for business outcomes.

Although adaptability scores get lower in post-M&A period, it is not a statistically significant decrease. It is thought that after M&As, employees would need the capability to adapt more than ever. Given that during M&As everything may have changed from management to salaries, psychosocial working environment, decorum (codes of conduct), and physical environment. Therefore, even before M&A starts, people in partnering organizations

may kind of adopt a tendency to psychologically prepare themselves to the would-be changed conditions, uncertainty and unforeseeable developments after the M&A. Employees should better adapt in order to survive in the new business environment. According to findings, consistency scores dropped significantly in post-M&A period. However, prevalent research states that strong organizational cultures increase company performance by enabling in-house psychosocial and behavioral consistency (Sorensen, 2002). This has double indications that companies get less consistent, as well as that company cultures get weaker after M&As, in line with the findings. According to Denison's model, a bias towards consistency and mission is more likely to reduce the variety and place a higher emphasis on control and stability. In contrast, a very low consistency is a sign of chaotic working environment. This finding is in line with the initial expectations regarding the current study, given that in the M&A process, norms are likely to dissolve, and the common ways of doing things lose their commonality-a process leading to chaos.

Just like consistency, mission culture scores drop significantly after M&As. Mission is about defining a meaningful long-term direction for the organization. It responds to the question Do we know where we are going? According to Denison & Neale (1996), high performing organizations have a mission that informs the employees why they are doing the work they do, and how the work they do each day contributes to this goal. Unsurprisingly in lately merged organizations, previous goals may lose their meaning. In this turmoil situation, employees may have a hard time to learn (change to) their new visions, goals, and roles in trying to achieve those goals.

With regards to H1-sub-hypotheses, the following results were obtained. Statistical analysis showed that the companies are getting less goal oriented after M&As. Goal-orientation is a part of mission. As previously explained, the new company will hardly have well-settled goals. Even if it starts with built-in goals at the beginning, it will take a long time for people to learn them and adapt themselves to meet the requirements for achieving the new goals. Statistical analysis shows that the companies are getting less customer-oriented after M&As. Customer orientation is a part of adaptability. The capability to adapt means being able to mold business practices in accord with the requirements of business environment. It responds to the question of: Are we listening to the marketplace? Organizations, which are well integrated, are often the toughest ones to adapt/change. Their customers motivate adaptable organizations. Such organizations take risks and learn from their errors. They have aptitude and skill at creating change. They are continually improving the organizations' abilities to increase value for their customers. As told before, the findings indicated a non-significant drop in adaptability scores, while all others decreased sharply and it was explained by the greater need for adaptation in order to survive in the business environment.

Statistical analysis showed that the companies are being significantly less organizational learning oriented after M&As. Organizational learning is a component of adaptability. In Denison's model organizational learning means we gain knowledge from successes and failures. In a company where organizational learning culture is weak, people automatically react to reasonable mistakes by blaming others. In a strongly organizational-learning oriented culture, employees ask the question: What can we learn from experience and incorporate this learning as feedback into the planning process.

Overall, the first hypothesis was supported with majority of its components. Weber and Camerer (2003) had similar findings. It should be noted that findings indicate culture changes happen from positive to negative. Although positive outcomes are taken for granted when M&As are planned and executed, this study has once again revealed that culture change happen in a negative direction, demonstrating a drop in strength.

The second hypothesis was H2. Post-M&A individual performance is greater than pre-M&A individual performance**.** The analysis of individual performance showed that there was an insignificant difference between the ratings for individual performance before M&As and the ratings for individual performance after M&As. Employees perceive their performances as almost the same in the pre and post-M&A era. Therefore H2 was rejected.   Since performance was measured by subjective self-report method rather than objective register data, people might have a tendency to rate their performance as consistent. The reason may be due to psychological attribution errors. According to Self-serving Bias, people tend to associate successes with the self and failures with others. In a situation of post-M&A turbulence or failure, most of the employees would feel that this failure is due to deficiencies of their new colleagues from the partnering organization, their careless work, and the uncertainties of the merging event. They would think that although they are themselves unswervingly hard working, intelligent, and dedicated, others have deficiencies.  This bias is true for most people, except for the ones in psychological depression who have low self-esteem, and negative self-image.  For depressed people, the primary reason of a success is luck.  In time of failures, the depressed people will likely attribute it to their negative qualities, such as stupidity.

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