

# Acculturation in Mergers and Acquisitions

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*A model focusing on the process of adaptation and acculturation in mergers and acquisitions is presented. It is proposed that the degree of congruence between the acquirer and the acquired organizations' preferred modes of acculturation will affect the level of acculturative stress. The latter will in turn either facilitate or hinder the implementation of the merger.*

Mergers have proven to be a significant and increasingly popular means for achieving corporate diversity and growth. The effectiveness of this strategy depends upon extensive planning and careful implementation (Blake & Mouton, 1984; Jemison & Sitkin, 1986; Salter & Weinhold, 1979). Most of the research on mergers has focused on strategic and financial fit between the acquirer and the acquired firms, though some research has dealt with the integration of various organizational systems, such as technology and management control systems (e.g., see Shrivastava, 1986).

These lines of research, although essential to an understanding of mergers, leave other important aspects relatively unexplored. With a few exceptions (e.g., Sales & Mirvis, 1984; Shrivastava, 1986), the role of sociocultural factors and the processes involved in merging two organizations as cultural entities have not been studied thoroughly (Jemison & Sitkin, 1986; Schein, 1985). Issues related to organizational fit and the management of human resources have received some attention (e.g., Barrett, 1973; Hayes, 1979; Sutton, 1983); however, much of the research has been prescriptive and relatively atheoretical, and few models that are applicable across different organizations have been proposed.

The role of acculturation in mergers is addressed in this paper and an interdisciplinary acculturative model of the planning and implementation of mergers as a strategic alternative is proposed. It is proposed that the degree of congruence between the preferred modes of acculturation for the acquirer and the acquired company will affect the success of the implementation of the merger. Other organizational systems such as structure, technology, and control systems are not specifically addressed. This model deals with diversification through acquisitions rather than diversification through internal means (i.e., research & development). Theories from cross-cultural psychology are adapted to explain the processes of cultural adaptation and acculturation in mergers.

## Review of Existing Research

### Organizational Culture

Culture is defined in many different ways (for a review see Jelinek, Smircich, & Hirsch, 1983). Each of the various definitions emphasizes a particular focus and level of analysis (for some examples see Deal & Kennedy, 1982; Pettigrew, 1979; Smircich, 1983; Tagiuri & Litwin, 1968; Van Maanen, 1979). With a few exceptions (e.g.,

Schein, 1984, 1985), the definitions of culture, however, fail to recognize it as a multidimensional, multilevel concept.

Most of the definitions of culture focus on the beliefs that members of an organization share. Although the term often is used as if organizations have a monolithic culture, most firms have more than one set of beliefs influencing the behavior of employees (Sathe, 1985). These various subcultures within one organization may be divided along occupational, functional, product or geographical lines; such subcultures may be enhancing, orthogonal, or counter to one another (Sathe, 1985).

In this paper culture is defined as the beliefs and assumptions shared by members of an organization. It is assumed that although a firm may have a dominant culture, many subcultures may coexist and interact. Researchers and practitioners focus on different subcultures depending on their interests. However, understanding the culture of any company involves identifying and deciphering the various subcultures and gaining insight into how they interplay to influence organizational behavior and decision making.

Organizational culture has been used as an independent variable to explain differences in managerial styles and organizational practices (e.g., Roberts, 1970; Bhagat & McQuaid, 1982). It also has been used as an internal variable focusing on the cultural elements within organizations (e.g., Deal & Kennedy, 1982; Tichy, 1982). Culture also has been used to explain the success of some organizations (e.g., Peters & Waterman, 1982). In fact, some researchers suggest that fit between culture and strategy is an essential element in organizational effectiveness (Ackerman, 1984; Schwartz & Davis, 1981). Of particular interest in the study of mergers has been the use of culture as a variable assumed to influence the implementation of strategic decisions (Davis, 1984; Schwartz & Davis, 1981; Shrivastava, 1986) or as a determinant of strategy (Ackerman, 1984; Shrivastava, 1985). Most of the studies attempting to identify the factors that affect the success of mergers as a strategic alternative men-

tion the importance of more subtle issues (e.g., Jemison & Sitkin 1986; Lubatkin, 1983, 1987; Marks, 1982). However, there appears to be a gap between the research about the various classifications of mergers and the research about the role culture plays in the overall implementation of mergers.

### **Mergers in Strategic Management Research**

In strategic management, mergers are most commonly classified on the degree of relatedness of two firms. Although this approach was developed for studying overall corporate diversification strategies, without distinguishing between internal and external means of diversification (Rumelt, 1974, 1982; Wrigley, 1970), it, along with Ansoff's corporate growth model (1965), is used in the study of strictly external diversifications (mergers) as well (i.e., Chatterjee, 1986; Lubatkin, 1987; Montgomery & Wilson, 1986). The research on relatedness has shown that although unrelated acquisitions can be successful (Montgomery & Wilson, 1986), firms that diversify into related businesses through internal or external means, on the average, outperform those that diversify into unrelated ones (Hawks, 1984; Kusewitt, 1985; Rumelt, 1974).

The choice of the degree of relatedness between the two firms in mergers depends upon the motives behind the merger. These motives can include achieving operating synergies in production, in marketing, in scheduling, in managerial experience, or in compensation systems (Chatterjee, 1986; Lubatkin, 1983). Also, many companies merge in order to achieve financial synergies such as risk reduction through diversification (Steiner, 1975) and access to more favorable financial terms (Lubatkin, 1983, 1987).

To obtain these synergies, a firm must select a merger target that is in varying degrees related to its business. Depending on the type of merger and the motive, the acquiring company must decide on an implementation strategy. That strategy determines the extent to which the various systems of the two firms will be combined and the degree to which the employees of the companies will interface.

For example, in unrelated mergers, the goal is to achieve financial synergy, thereby requiring little if any integration of the operations of the two companies (Shrivastava, 1986) and minimal contact between their employees. As the degree of relatedness decreases (e.g., in vertical or unrelated mergers), managers may be less willing to intervene in the business of the acquired unit (Walter, 1985). Therefore, the acquirer may impose changes only in the acquired unit's financial systems (Shrivastava, 1986). On the other hand, in related mergers, the acquirer is more likely to impose its own culture and practices on the acquired company (Walter, 1985), thereby initiating extensive interaction among the employees of the two firms. In these instances, the acquirer considers itself knowledgeable about an industry or the product, and it perceives a need to reduce duplication and to achieve economies of scale (Shrivastava, 1986).

Overall, achieving operating synergies has been less than successful (Galbraith & Stiles, 1984; Kitching, 1967). Problems such as differences in managerial styles or compensation systems (Lubatkin, 1983; Scherer, 1980), resistance by the members of both firms to changes in the structure (Pitts, 1976), and the differences in the firms' personnel characteristics and employees' willingness to adapt to the culture and practices of the other company (Jemison & Sitkin, 1986; Lubatkin, 1983) have been suggested as possible obstacles for achieving the desired synergies. Jemison (1986) indicated that research about the implementation of mergers is fragmented and he suggested that a process-oriented, long-term view is necessary. Shrivastava (1986) focused particularly on the importance of postmerger integration of the two companies in determining the success of the merger. He identified three different levels of integration: (a) procedural, (b) physical, and (c) managerial and sociocultural. Whereas the first two types of integration have been discussed in the literature, because of the complexity of the variables involved, sociocultural and managerial integration has not been examined thoroughly (Shrivastava, 1986).

Integration at the managerial and sociocultural level requires contact between the employees of the two companies. Where change occurs, it may affect the members of the acquired firm most strongly because they often are expected to adapt to the practices of the acquirer (Jemison & Sitkin, 1986; Sales & Mirvis, 1984). Processes that involve mutual influence of two autonomous systems and firsthand contact between members of two groups have received considerable attention in anthropology and cross-cultural psychology under the topic of acculturation (e.g., Berry, 1980; Chance, 1965; Redfield, Linton, & Herkowitz, 1936; Social Science Research Council, 1954).

### **Acculturation in Anthropology and Cross-Cultural Psychology**

The study of acculturation in anthropology and cross-cultural psychology dates to the 1880s. Acculturation is generally defined as "changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions" (Berry, 1980, p. 215). The process occurs at the group and individual levels in the three stages of contact, conflict, and adaptation (Berry, 1983). Although acculturation is considered to be a balanced two-way flow, members of one culture often attempt to dominate members of the other (Berry, 1980; Keesing, 1953).

Though the concept of acculturation was developed to explain events involving societal groups, it can be applied to industrial or social organizations as well, because the two share many defining characteristics. Both industrial and social organizations exist and adapt within a specified environment and have well-defined boundaries that encompass a number of individuals who interact and are interdependent to varying degrees (Sales & Mirvis, 1984). They have a functional and adaptive quality and provide their members with a system of shared symbols and cognitions to deal with each other and with the outside world.

However, in organizations, the various systems such as structure and technology affect the or-

organization and its members more directly. Furthermore, when a societal group is forced to interact with another, the members do not have the option of not acculturating and refusing contact as readily as organization members do. In organizations, members can choose not to accept the culture of the other organization by simply leaving the organization, or the acculturation process can be bypassed if most members of the acquired company are fired. More importantly, the concept of acculturation as it is used in cross-cultural research focuses on the desires of the members of the culture that is being invaded; it also focuses on the way in which these members adapt to the intruder. However, in mergers, the motive for the merger and the type of merger, both factors associated with the acquirer, cannot be overlooked.

### **Modes of Acculturation**

Berry (1983, 1984) identified four modes through which acculturation takes place. These modes define ways in which two groups adapt to each other and resolve emergent conflict. In the case of mergers, the characteristics of the acquired and the acquiring companies determine which mode of acculturation will be triggered.

#### **Integration**

Integration is triggered when members of the acquired firm want to preserve their own culture and identity and want to remain autonomous and independent. Berry (1983) suggested that integration as a mode of acculturation leads to structural assimilation of two cultures, but little cultural and behavioral assimilation. London (1967) argued that although integration involves interaction and adaptation between two cultures and requires mutual contributions by both groups, it does not involve loss of cultural identity by either. As a result, the acquired company's employees try to maintain many of the basic assumptions, beliefs, cultural elements, and organizational practices and systems that make

them unique. At the same time, they are willing to be integrated into the acquirer's structure. However, integration can take place only if the acquirer is willing to allow such independence. Overall, integration leads to some degree of change in both groups' cultures and practices; the flow of cultural elements is balanced because neither group tries to dominate the other.

#### **Assimilation**

In contrast to integration, assimilation is always a unilateral process in which one group willingly adopts the identity and culture of the other (Berry, 1983, 1984). Therefore, the members of the acquired firm willingly relinquish their culture as well as most of their organizational practices and systems (Sales & Mirvis, 1984), and they adopt the culture and systems of the acquirer. This may occur in an acquired firm that has been unsuccessful, one in which employees and managers perceive that their culture and practices are dysfunctional and hindering organizational performance. Therefore, following the merger, structural as well as cultural and behavioral assimilation will occur. Overall, the acquired firm will be absorbed into the acquirer, and it will cease to exist as a cultural entity.

#### **Separation**

Separation as a mode of acculturation involves attempting to preserve one's culture and practices by remaining separate and independent from the dominant group (Berry, 1983). Separation is likely to take place when members of the acquired organization want to preserve their culture and organizational systems and they refuse to become assimilated with the acquirer in any way or at any level. These members resist any attempt at adaptation and conciliation, and they try to remain totally separate from the acquirer. If allowed to do so, they will function as a separate unit under the financial umbrella of the parent company. Overall, separation means that there will be minimal cultural exchange between the two groups, and each will function independently.

## Deculturation

The fourth mode of acculturation is "deculturation" or "marginality." Deculturation involves losing cultural and psychological contact with both one's group and the other group, and it involves remaining an outcast to both (Sales & Mirvis, 1984). Deculturation occurs when members of the acquired company do not value their own culture and organizational practices and systems, and they do not want to be assimilated into the acquiring company. As a result, the acquired company is likely to disintegrate as a cultural entity. Berry (1983) suggested that ". . . it is accompanied by a great deal of collective and individual confusion . . . and by feelings of alienation, loss of identity, and what has been termed acculturative stress" (p. 69).

### Factors that Determine the Course of Acculturation

The concept of acculturation presented above addresses the different ways through which the culture, organizational practices, and systems of two companies can be combined. It is suggested that when two groups come in contact, total absorption of one into the other is by no means the only mode of adaptation. The course of acculturation depends on the way in which the acquirer and the acquired companies approach the implementation of the merger. From the acquired company's point of view, the degree to which members want to preserve their own culture and organizational practices and the degree to which they are willing to adopt the acquirer's culture and practices will determine their preferred mode of acculturation (see Figure 1).

The variables in Figure 1 can be measured by asking members of the acquired organization the extent to which they seek positive relations with the acquirer and the extent to which they perceive their own culture to be valuable and worth retaining (for an anthropological example see Berry, Wintrob, Sindell, & Mawhinney, 1982). Furthermore, cross-cultural psychologists (e.g., Sommerlad & Berry, 1970) have used scales increasing identification with one or the other cul-

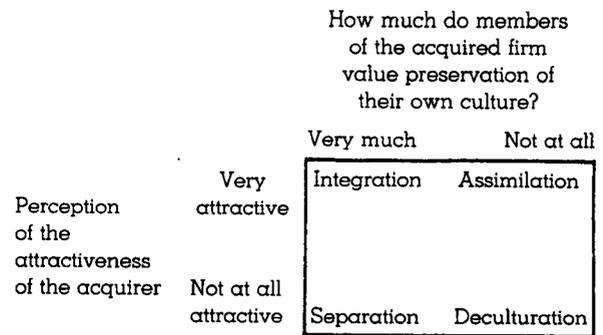


Figure 1. Acquired firm's modes of acculturation.

Note: This model is a modified version of one developed by Berry (1983).

ture as measures of attitudes toward acculturation. In addition to questions related to attitudes toward one's own and the acquirer's culture, observation of organizational events and critical incidents can be used to estimate attitudes toward one's culture and toward the acquirer's culture (e.g., Sales & Mirvis, 1984). These methods provide information about how members of the acquired company would like to acculturate to the acquirer.

In the case of the acquirer, the culture, particularly the degree to which the firm is multicultural and the diversification strategy regarding the type of merger (i.e., degree of relatedness), will determine the preferred mode of acculturation (see Figure 2). The term multiculturalism refers to the degree to which an organization values cultural diversity and is willing to tolerate and encourage it. If an organization simply contains many different cultural groups, it is considered to be a plural organization; if in addition, the organization values this diversity, it is considered to be multicultural (Sales & Mirvis, 1984). If an acquirer is unicultural and, therefore, emphasizes conformity and rewards adherence to unique goals, strategies, and organizational practices, it is more likely to impose its own culture and management systems on a new acquisition. If the acquirer is multicultural, it is likely to

		Culture: Degree of Multiculturalism	
		Multicultural	Unicultural
Diversification Strategy: Degree of Relatedness of Firms	Related	Integration	Assimilation
	Unrelated	Separation	Deculturation

Figure 2. Acquirer's modes of acculturation.

consider diversity an asset and therefore will allow the acquired firm to retain its own culture and practices.

The second variable that determines the course of acculturation for the acquirer is the diversification strategy regarding the type of merger—the degree of relatedness between the acquirer and the acquired firms. If the merger is with a firm in a related business, the acquirer is more likely to impose some of its culture and practices in an attempt to achieve operating synergies. On the other hand, an acquirer is less likely to interfere with the culture or practices of an unrelated acquisition (Walter, 1985).

The degree of multiculturalism of an organization can be measured by observing organizational events and examining oral and written records of ways in which groups with different cultures have been managed. For example, the way in which a previous acquisition was handled can indicate the culture of an acquirer. If the members of the acquired organization were forced to change many of their practices and everyday behaviors, the acquirer is likely to be unicultural. Overall, the extent of change imposed on individuals or groups who are different from what an organization considers as acceptable provides an index of the degrees of multiculturalism.

Measures of relatedness have been developed and used extensively in strategic management research (for a review see Venkatraman & Grant, 1986; for some examples see Christensen & Mont-

gomery, 1981; Hawks, 1984; Rumelt, 1974, 1982). These measures can be used to assess the degree of relatedness of the two businesses and to provide information regarding the second determinant of acculturation from the point of view of the acquirer.

### **Acculturative Model for the Implementation of Mergers**

The concepts presented in this paper provide a new approach for increasing our understanding of some of the underlying elements that affect the implementation of mergers. A general model is introduced in Figure 3. The basic contention of the model is that given that the members of the two organizations may not have the same preferences regarding a mode of acculturation, the degree of agreement (congruence) regarding each one's preference for a mode of acculturation will be a central factor in the successful implementation of the merger.

It is proposed that when two organizations agree on the preferred mode of acculturation for the implementation of the merger, less acculturative stress and organizational resistance will result, making acculturation a smoother process. Acculturative stress is defined as "... individual states and behaviors that are mildly pathological and disruptive . . ." (Berry, 1980, p. 261). Such stress and disruption is the result of contact with another group (Berry, 1983; Berry & Annis, 1974). Congruence can take place even if the cultures and practices of the two organizations are considerably different.

Incongruence which occurs when the two organizations do not agree on the mode of acculturation is likely to lead to high amounts of acculturative stress and disruption for both individual and group functioning. A high degree of acculturative stress would indicate a poor resolution of the conflict that is triggered when the two firms come in contact. Measures of acculturative stress developed for use in cross-cultural studies (e.g., Cawte, Bianchi, & Kiloh, 1968; Mann, 1958) can be adapted for use in organizational research. As a result of incongruence, key managers and

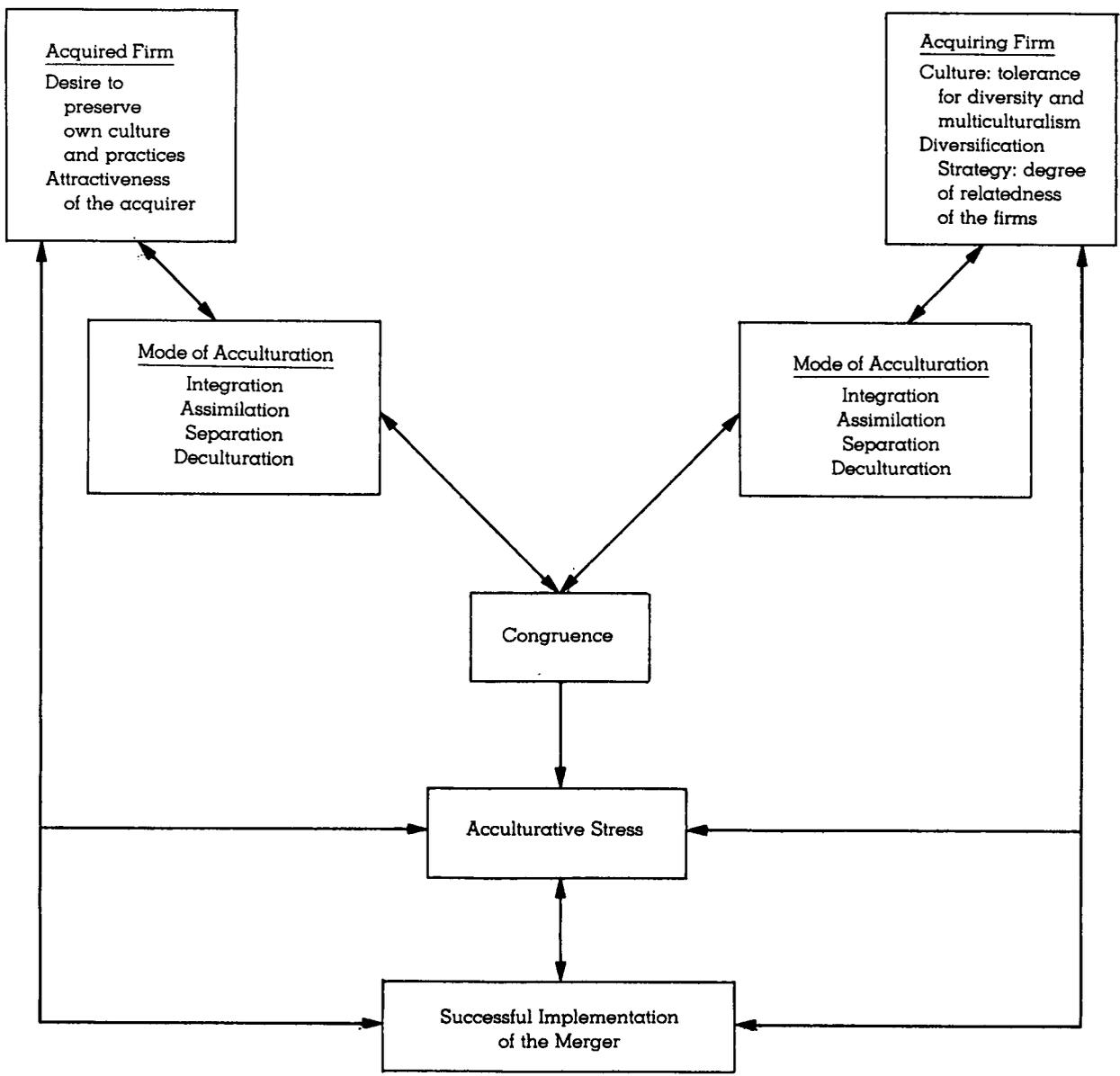


Figure 3. Acculturative model for the implementation of mergers.

other valued employees may leave, active resistance to adopting any of the acquirer's systems may occur, and overall, the conflict will not be resolved in a way that would be beneficial to either of the organizations involved. On the other hand, congruence will result in minimal acculturative stress, and it will help to facilitate the implementation of the merger.

The last feature of the model presented in Figure 3 is its dynamic nature. The model suggests that the mode of acculturation that occurs, the process of implementation, and the outcome of the merger will, in turn, affect the cultures and practices of the two organizations. For example, an acquired firm's members' desire to preserve their culture and practices may change as a result of contact with a very successful and attractive acquirer. On the other hand, the degree of multiculturalism of an acquiring firm may change as a result of the outcome of various mergers. The dynamic nature of the model suggests that over time two merger partners may each move from one mode of acculturation to other modes and, therefore, the degree of congruence between each one's preferences may change.

Propositions concerning the role of acculturation in the implementation of mergers are presented in Table 1.

## **Discussion and Implications**

The existing failure rate of mergers suggests that neither academicians nor practitioners have a thorough understanding of the variables involved in planning and implementing a successful merger. Aside from the financial and operational considerations, the model presented here draws attention to the concept of cultural adaptation both during and after a merger. It is suggested that a successful merger involves not only thorough financial and strategic analysis and planning, but also planning regarding congruence between the two companies' preferences about the implementation strategy for the merger.

### **Role of the Acquired Company**

One of the shortcomings of much of the previous research about merger effectiveness has

been to focus on the acquirer and its objectives and strategies at the expense of the role of the acquired company. The typical approach to merger implementation has been to expect the acquired firm either to adjust or to adapt to the acquirer. However, the active resistance that often accompanies mergers is evidence that the desires and preferences of the members of the acquired firm cannot be ignored (Walter, 1985). The concepts of acculturation and congruence suggest that many of the problems associated with postmerger integration of two firms can be avoided or managed if they agree on the mode of acculturation.

Furthermore, given that organizations typically encompass several different subcultures, one or more of the modes of acculturation may be triggered simultaneously. As a result, acculturation may take different courses for various subgroups within the acquired organization, and different degrees of congruence are likely to result for each subculture. This possibility suggests that the various subcultures must be understood by the acquirer, and that each may need to be managed differently.

### **Fit Between Strategy and Culture**

The model presented in this paper also questions one frequent recommendation related to strategic management. As mentioned earlier, much of the research about the concept of relatedness has found that related companies tend to outperform unrelated ones. Such results have given way to broad strategic recommendations for companies to diversify into related businesses so that they can take advantage of operating synergies. However, the success of some unrelated acquisitions (Montgomery & Wilson, 1986) shows that stringently adhering to this recommendation may deprive companies of opportunities. Missing from the research is precise information regarding the reasons why related or unrelated acquisitions succeed. No empirical data are available regarding the way in which successful and unsuccessful acquisitions have been managed. Focus has been on the link between diversification strategy (e.g., relatedness) and

*Table 1*  
*Propositions Concerning the Role of Acculturation in Mergers*

Preferred mode of acculturation for the acquired company:	
1. When members of an acquired organization value their culture and organizational practices and want to preserve them, and they perceive an acquirer as attractive, integration will be their preferred mode of acculturation.	3. When members of an acquired organization value their culture and practices and want to preserve them, and they do not perceive an acquirer as attractive, separation will be their preferred mode of acculturation.
2. When members of an acquired organization do not value their culture and practices and do not want to preserve them, and they perceive an acquirer as attractive, assimilation will be their preferred mode of acculturation.	4. When members of the acquired organization do not value their culture and practices and do not want to preserve them, and they do not perceive an acquirer as attractive, deculturation will be their preferred mode of acculturation.
Preferred mode of acculturation for the acquirer:	
1. When an acquirer is multicultural and the merger is with a related company, integration will be the most likely mode of acculturation.	3. When an acquirer is multicultural and the merger is with an unrelated company, separation will be the most likely mode of acculturation.
2. When an acquirer is unicultural and the merger is with a related company, assimilation will be the most likely mode of acculturation.	4. When an acquirer is unicultural and the merger is with an unrelated company, deculturation will be the most likely mode of acculturation.
Congruence and successful implementation:	
1. If there is congruence between the two companies regarding the preferred mode of acculturation, minimal acculturative stress will result and the mode of acculturation triggered by the contact between the two companies will facilitate the implementation of the merger.	2. If there is incongruence between the two companies regarding the preferred mode of acculturation, a high degree of acculturative stress will result and the mode of acculturation triggered by the contact between the two companies will hinder the implementation of the merger.

outcome (e.g., financial performance); the process has been ignored.

The acculturative model of merger implementation provides hypotheses regarding how mergers with firms with varying degrees of relatedness can be successful. For example, an unrelated acquisition can be managed successfully if the acquired business is left separate (separation mode) according to its employees' desires. This mode corresponds to the original goal of an unrelated merger, which is to achieve financial rather than operating or managerial synergy. The concept of congruence and the issue of fit between strategy and culture for the acquirer can explain some of the performance differences in related and unrelated mergers.

### **Focus on Process**

Many researchers agree that the main objective of any merger is to improve the performance of the combined companies (Lubatkin, 1983). Often, the measures that are used to evaluate merger performance rely on financial data and focus on the profitability of the organizations (Kusewitt, 1985; Chatterjee, 1986). This financial approach to effectiveness takes a general, one-shot, outcome-oriented view of mergers. In light of criticisms of such a view (e.g., Jemison, 1986; Jemison & Sitkin, 1986; Montgomery & Wilson, 1986), the need to develop process-oriented models of postmerger integration is evident (Shrivastava, 1986). The model presented here encour-

ages focusing on the dynamic processes by which the acquired and the acquiring firms resolve the conflict that arises as a result of their contact. It draws attention to the meshing of people, cultures, and organizational practices as a determinant of a successful merger.

### Future Research

Research concerning this model should take two approaches. First, the propositions should be tested; this also would involve further development and adaptation of existing measures. Second, because the model identifies only three major variables more theoretical exploration is required. Other organizational elements and systems, such as structure, leadership, managerial style, and control systems may have an impact on the choice of the preferred acculturation mode and the course of acculturation.

Aside from methodological and theoretical developments, the concepts of acculturation and congruence suggest interesting research and practical issues. For instance, given that incongruence between the preferred modes of acculturation for the acquired and the acquiring companies is likely to take place, are some mismatches of modes easier to manage than others? Would incongruence be more manageable if the acquirer prefers integration and if the acquired wants to be assimilated, rather than the former preferring assimilation and the latter integration? Furthermore, some mismatches of the preferred modes may be so incongruent that the movement toward congruence may be painstakingly slow, or impossible. Clarifying the above issues and their determinant factors may help to plan and manage the acculturation process in mergers.

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