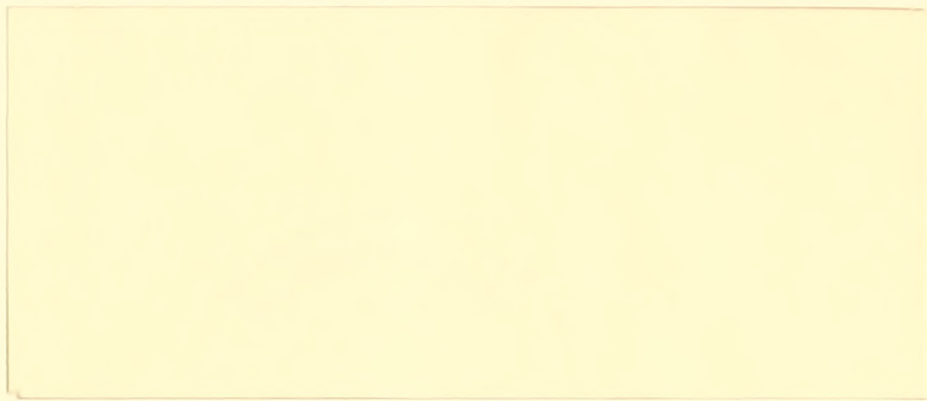THE COS ROUNDTABLE ON MERGERS AND ACQUISITIONS:
A Meeting of Perspectives

Jane E. Salk

August, 1989   WP#3068-89-BPS

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Abstract

This paper reviews a two-day roundtable discussion by consultants, managers, and academics of organizational and cultural issues in mergers and acquisitions. The discussion underscored the degree to which even very experienced individuals find it impossible to treat these phenomena wholistically. Individuals reflected consistent biases toward particular levels of analysis and time frames. This bias may help to explain why, in spite of a rapidly-growing body of research and articles, there seems to be a lingering feeling from all sides that mergers and acquisitions are neither well-described nor understood.

In examining <u>what</u> participants emphasized, it became apparent that there is a lack of systematic data and knowledge about the micro-processes that occur before and during the formal merger consummation process. A review of the discussion also revealed that the vocabulary and perceptual differences between those formal-systems, macro-oriented participants and the more group or individual impact-oriented participants was so great that it was difficult for each group to benefit from the other's insights.

Introduction

This essay reports an exploratory merger -- a merger of ideas and experiences among academics, consultants, and managers in the context of a two day roundtable discussion on organizational and cultural issues in mergers and acquisitions. Insofar as the participants came to the meeting with different expectations and differing mental maps of "what really matters," one could not expect much consensus to emerge in such a short time frame. Rather, the meeting allowed a rich variety of perspectives and experiences to emerge and, as such, really should be seen as a foundation for potentially more focussed and systematic explorations.

Though mergers and acquisitions are not new phenomena, current economic and political conditions in Europe lend a new air of urgency toward increasing our understanding of how, why, and when they work. (1) So much work on mergers and acquisitions, and so much managerial decision-making surrounding merger and acquisition activity, is driven by the formal logic "of the numbers," and by assumptions of production, technological, or marketing synergies ripe for exploitation. Yet as one finds again and again in first and second hand accounts, organizational and cultural complications can quickly relegate such synergies to the realm of unrealizable fantasy. In what follows, a variety of such complicating factors is enumerated and I suggest specific areas where contributions to our understanding of culture in mergers and acquisitions need to be made.

My role here is to revisit the roundtable discussions in order to cull important themes from the seeming cacophony of perspectives. These themes,

as those familiar with the popular and academic genres of writing on mergers and acquisitions will recognize, closely parallel what one would find combing through the published literatures. But eliciting these themes and issues in the context of an open discussion illuminated why the literatures covering mergers and acquisitions, though large, somehow seem to fall short of capturing what is essential about these phenomena. The roundtable experience also suggests, however, that the differences in emphasis and perspective have the potential to complement one another.

Two dimensions go a long way toward organizing the discussion themes in a simple, but illuminating, manner. The first dimension is that of the time focus taken in the process of merger and acquisition formation and management. Mergers and acquisitions take place over extended time periods. They invite chronological analyses and stage models of their development. There are a number of stage models of mergers and acquisitions available (cf. Buono and Bowditch, 1989; Buono, Bowditch, and Nurick, 1987). (2) However, participants in the roundtable tended either to focus upon the time frame up to when the formal merger or acquisition is implemented (what I shall call an ex ante perspective), or to focus upon the formal and informal post agreement changes (designated here as a post hoc perspective).

Likewise, roundtable participants implicitly or explicitly preferred to direct their focus toward particular levels of analysis. Some par- ticipants characteristically concerned themselves with macro organ- izational and strategic issues, while others usually focussed upon micro level phemonena such as stress and anxiety, intergroup conflict and integration.(3)

It was striking that though individuals are aware of different stages in time and different levels of analysis at which a merger or acquisition

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might be experienced, few people seemed able to shift their focus comfortably over the various temporal stages and levels of focus. No matter where one focusses-- whether it be upon micro or macro factors, pre- or post-agreement stages of the merger -- this bounded capacity to view the whole means that some factors are almost always over-emphasized at the expense of others.

In the following section, I use these two dimensions -- time frame and level of analysis -- as vehicles for mapping major themes and issues aired by roundtable participants. Along the way I shall note those areas and themes that were undeveloped or ignored. I also draw some implications for future research and exchanges among professionals.

Categorizing Perspectives on Mergers and Acquisitions

I. Introduction:

Figure 1 deploys the two dimensions introduced above in order to organize the major themes of the roundtable. When considering the relative amount of discussion time devoted to themes in the different categories,the two categories that appeared to dominate were the Ex Ante - Macro and the Post Hoc - Micro cells of Figure 1 -- the diagonal. The published literature similarly focusses upon themes that fall along the diagonal. Though the majority of literature specifically devoted to mergers and acquisitions coincides with the strategic and game theoretic logics of cell 1, there is also a sizable, general and merger-specific literature comprising OD, change management and some writings on culture (Notably Buono and Bowditch, 1989). (4) In the literature there is also much concern with cell 4 -- the Post Hoc- Macro cell -- in that many

published studies seek to establish an empirical or theoretical link to traditional economic performance measures (performance as a dependent variable). However, a number of conceptual and measurement issues bedevil research concerned with linkages between organization and performance, some of which were raised in the course of our discussion.

II. Ex Ante - Macro Themes:

Major topics of discussion which fell into this category were: (1) the issue of institutional contexts of merger and acquisition activity; (2) the capacity of national or corporate cultures for merging or integration; and (3) strategic intent or goals.

The first topic, that of institutional contexts, has different meanings. A critical set of institutional contingencies are bound up with legal, industrial-organizational, and cultural differences. Clearly, legal constraints and inducements can affect the propensity of firms to utilize mergers and acquisitions as a strategic alternative. Examples of legal constraints include anti-trust legislation, laws about workers' rights, etc. Industrial organizational factors include the extent to which control over companies is public or private, concentration of competition, the degree of interconnectedness among organizations, and the prior extent of vertical integration. Societal or industry tendencies toward clan, market, or hierarchical forms of intra-and inter-organizational relationships may affect day-to-day processes within mergers as well as the propensity to form mergers in the first place.

Cultural differences may affect the propensity for merger and acquisition activity, both within and across borders.(5) Some cultures -- national, ethnic, and organizational -- have greater capacity for

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cooperating with, absorbing, or integrating with, other cultures. For example, this observation has been made in comparing the cultures and ability to forge successful mergers or alliances of large multinationals (eg. Unilever versus IBM).

The capacity of cultures for cooperation, absorption and integration invite descriptions of cultures as "open" or "closed," "weak" or "strong." A closed culture can be thought of as a culture that is very context-specific and that does not equip its members to be accepting of other cultures or contexts. An open culture's identity is not threatened by external interpenetration and it may in fact thrive upon active boundary spanning. Cultural values also seemed to pervade the imagery used by managers in talking about mergers and acquisitions. For example, a major German company described the person they wanted to head an American acquisition as a "cultural hero." More generally, words and imagery often used by managers tie into the realm of family (mother-daughter, parent-child) relationships. Thus, culturally-bound practices of child rearing and familial relationships may be illuminating in understanding the expectations that parties bring with them to mergers and acquisitions. (6)

Another topic that cropped up was that of strategic and cultural compatibility of firms engaging in merger or acquisition agreements with one another. Compatibility can be thought of in the sense of complementary technologies or assets; as synergies in the markets and hierarchies sense (Williamson, 1975); or in more organizational terms (cf. the notion of "comps" in McKelvey, 1982). Expectations of complementarity or synergies tend further to be legitimated on the grounds of external market or political forces in some industries, or by internal logics of firms in other cases.

In practice, mergers might be arrayed along a continuum from purely externally driven, to purely internal strategic choice by the managements or organizations involved. An example tending toward the former extreme might be the case where mergers are consummated legally within a matter of weeks because of the constraining influence of competitors or unions.(7) An example exemplifying the tendency toward choice might be the pair of banks described in Buono and Bowditch (1989), where the managements went through a much slower, more deliberate and detailed exploration of whether they should merge, followed by a pre-agreement negotiation and planning process.

Some participants suggested that the core technology of a business may also be a factor facilitating or making mergers and acquisitions more difficult. This might be true in the sense that the marrying of technological know-how can be very complex. It might also be true that technology mediates the need for integration of cultures. For example, Perrow (1967) and Daft and Macintosh (1978) argue that some technologies require very different coordination and communication arrangements. For certain types of tasks or technologies there may be need for frequent and rich interaction.

Strategic intent for mergers or acquisitions also is critical. We have already suggested above that the marrying of technologies may have important ramifications for the probability of a "successful" mergers and acquisitions. Another way of looking at such organizational level rationales would be in terms of what is being merged or acquired. For example, in certain branches of the consumer product industry what one is said to be seeking in many of the current acquisitions are brand names and market access; the technological know-how or physical assets of the merged or acquired entities in such a case may not be paramount. However, in

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other cases it is very much the human assets that provide the potential value and in such cases one might anticipate _a priori_ that the merging process might be more difficult.

III. **Ex** **Ante** - Micro Themes:

Themes falling into this category have to do with individual, group and intergroup identities and processes of negotiation. These pertain especially to the early stages of the merger process, though they may have lasting ramifications for merger functioning. Among themes in this category were: (1) the question of the identity or loyalty of individuals; (2) the issue of the attractiveness (or inevitability) of the merger to organization members; and (3) the personal, interpersonal and intergroup processes of revelation and trust-building.

The issue of identity, and how a merger and/or acquisition might threaten identities in destructive ways, was something that often is not confronted by those arranging and managing mergers until after it becomes a problem. It is not always apparent what individuals and groups derive their identity from in organizational contexts. Yet when individuals identify very strongly with an employer's name and image, a merger or acquisition may be exceedingly threatening to individuals to the extent that they perceive a threat to this identity. Identity might alternatively be derived from perks (a corner office), or rewards (salary), or from subgroup identities that an insensitive or unaware designer of an acquisition or merger might threaten needlessly. Identity may also be linked to organization culture or national culture on one hand, and its consequences may be linked to the post hoc - micro processes on the other hand. As such, though only addressed in broad terms at the roundtable,

identity might be an important concept in linking across levels of analysis and stages of the merger and acquisition process.

Attractiveness (or perceived inevitability) of the acquisition or merger was raised as an important dimension in gauging the probable resistance to the merger by members of the organizations involved. Clearly, some acquisitions (and mergers) are structured as zero-sum games, with one party entering the agreement in an inferior bargaining position. Consultants working with such situations report rich imagery from merger and acquisition participants that draws analogies to rape or victims of violent attacks. All participants experienced with such organization change seem to agree that individuals are primed to look for signs and symbols of possible inequities. The degree to which inequity is likely to be felt depends upon what is done and agreed to at the earliest stages of the negotiations. For example, deciding to take the name of one company entering the merger for the name of the merged entity, may invite interpretation that one group is swallowing or conquering the other when the decision had in fact little to do with that.

A merger or acquisition may be attractive to individuals or groups because they see some positive gain. In situations where economic performance is very poor or market conditions are uncertain, merging or being acquired by another entity might also be attractive because the certainty is preferable to other, perhaps uncertain, scenarios. A related way of viewing this dimension is found in Nahavandi and Malekzadeh (1988) who see the interaction between the attractiveness of the acquirer and the desire to preserve one's own culture as key to understanding processes during the merger.

Getting to know and understand one's own motives, the other party, and the other organization before entering into a binding agreement was also

deemed important by roundtable participants. Often the motives of a CEO or others instrumental in initiating a merger are not clear and the individual himself may not be introspective about his real motivations. Tales were recounted of CEO's who initiated acquisition activity out of boredom or a desire for new personal challenges. If these individuals can not even understand their own motives, it is difficult to arm both their own managers, much less the other side, with the information they need to work effectively.

Through the process of negotiation one can learn a lot about the other organization, or at least those members of the organization involved in the negotiation process. However, there are many aspects of the expectations, values, and motives of individuals and groups that are less discussable and, hence, not likely to surface in the relatively well-circumscribed context of a formal negotiation. Parties to negotiations can try to mitigate this problem of discussability by using all available information sources such as negotiation counterparts, published materials, and investigation of the other organizational characteristics (eg. culture, power structures, and key players) through current and former employees, and through common suppliers, customers, or consultants.

IV. Post Hoc - Micro:

Many of the OD consultants participating in the discussion tended to focus their attention upon phenomena in this category. Among these phenomena were the human costs of post agreement activities, including stress, anxiety and career disruptions. Everyone who had participated in mergers or acquisitions agreed that the level of stress for (at least

managerial) participants was greatly heightened. Stress can result from
the uncertainties involved in reallocating formal roles and the
uncertainty that this interjects into careers and livelihoods. Another
source of stress is the clash of norms, systems, and expectations between
individuals and groups, especially where high reciprocal interdependence
or coordination is called for. In an acquisition there is always one set
of employees, systems, etc. that is better known to the controlling
management than the other.

Regardless of which systems, structures and reporting relationships
are agreed upon, the processes of merging can take a toll in that so much
is new for so many people. Individuals and groups are bound to violate
assumptions and expectations of one another, even where tremendous
goodwill exists. Buono and Bowditch (1989), among others, suggest that
there is a process loss from the socialization and learning in such
marriages. The process loss may be seen as a dip in financial return or
output upon consumation of the formal merger with only a very gradual
recovery.

Negotiation, it was suggested, opens up the discussability and
discovery of some aspects of the other firm's management expectations,
style, etc. But once the agreement is signed, the merging at other levels
of the organization only begins, and management confronts new and perhaps
more complex and ambiguous problems and issues. The new challenges to the
top management team might destabilize a top team that had previously found
a way of working together on a more bounded, or perhaps less dependency-
inducing, set of initial objectives. Because the levels of the
organization tend to be interconnected, with top-down influences often
especially important, what happens to upset the equilibrium of a top
management team may have far-reaching repercussions in the organization.

(In a companion essay, Professor Schein treats this topic in greater depth.)

From the case experiences of roundtable participants, it was clear that the style of leadership, and the structure, staffing and timing decisions made about the merging, all had a significant impact upon the morale of employees and the acceptance of the merger. The need for top management to make employees feel as if they are known and appreciated by managers (regardless of their corporate origins) was stressed.

V. Post Hoc - Macro:

Performance is a pervasive concern in the organizations literature. The realization of formal economic and output goals falls here. However, while published studies tend to look at some measures such as return on sales or investment, roundtable members voiced reservations as to the extent to which such measures are satisfactory as a gauge to merger success. For example, if two firms merge in the trough of a business cycle, and in the subsequent period the market turns up, can one conclude from the high sales or income that the merger was a success? On the other hand, if a merged entity earns less than the two entities before the merger earned added together is that a clear indication of failure? The impetus for such a marriage in the first place might have been the anticipation of leaner times ahead. The question is what are the relative benchmarks, and that is a very sticky question to answer.

Another way of thinking about post hoc - macro outcomes is simply whether the united entity survived or not. Acquisitions may be resold, mergers may be undone formally, or whole management teams might defect. The merged entity might fail or go bankrupt. IBM sold Rolm, and Ciba-Geigy

disposed of Airwick, though in the latter case we once again encounter the ambiguity inherent in the enterprise of judging success in that Airwick was profitable when Ciba-Geigy chose to sell it.

A general conclusion about this category of concerns is that performance and success are far more ambiguous and more complex than is evident in much of the published literature.

Discussion

I. The Causes and Consequences of Specialization of Focus:

As Figure 2 suggests, the macro focus seems to be more exclusively related to the issues and concerns of top management, while discussion on the micro side was more likely to cut across levels of the organization. The macro side may more closely reflect the concerns of organizational elites who will ultimately stand in judgement of the success or failure of the alliance. However, those immersed in the micro issues may tend to get too caught up in the anxieties and stresses of the change as experienced in the middle and lower echelons of the organization. Organizational development-oriented professional moreover are more likely to become intimately involved only at or after the point of formal consummation and often because problems become too obvious to ignore. As a consequence, such individuals may underappreciate the performance factors that are likely to sway top management or investor evaluations.

The strategic rationale for venturing, it was suggested, might also affect the extent to which relative sensitivity to micro versus macro issues is engendered. There is no room to develop a typology of motives, but it should be clear that in some ventures, the realization of expected

synergies, or the competencies being acquired, are more tangibly related to the human assets than is the case in other mergers or acquisitions. In some industries or individual cases, the economic and production logics may be so compelling that high stress or employee motivation may make little difference for the particular outcomes valued by top management, investors, and other powerful stakeholders.

More typically, though, the knowledge, skills and motivation of the human actors does seem to play a role in realizing the economic and organizational goals of critical power elites. So it is telling that the weight of the published material on mergers and acquisitions tends to be more skewed toward the macro side, even though experience indicates that the micro-factors may matter equally or more in longer-term success.

This tendency is interesting in light of the way in which the roundtable discussion of micro-factors developed. What participants described as successful OD interventions had the flavor of a sensitive deployment of standard wisdom on group and organizational development. "Sensitive" seems to be the key word here, in that some authors describe cases in which getting groups "to sit down and share with one another" did not work in merger situations, supposedly because one or both groups had potent fantasies of the other trying forcibly to dominate them in the organization. To the extent that intergroup, rather than interpersonal, categorization dominated interactions, a refinement in how the OD consultant approached team building was called for which the consultant somehow did not perceive.(8)

There is a marked tendency for individuals describing O.D. experience in mergers or acquisitions to be highly relativistic in treating case situations as unique. But given some of the interesting structural properties of mergers -- the bringing together of individuals and groups

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that are unknown to one another under structural conditions that are ripe

to provoke ingroup-outgroup categorization and disfunctional stereotyping

activity (see Wilder, 1986) -- it ought to be possible to categorize and

compare O.D. experiences across cases and to begin to get a better grasp

of the dynamics of organizational mergers and how they might better be

managed.

II. Mergers and Acquisitions as Strategic Alternatives:

    Mergers and acquisitions can be seen as two types of

legal/organizational arrangements among an array of alternatives for

achieving strategic goals. Figure 3, which developed in the course of the

roundtable discussion, suggests that the economic/industrial-

organizational context will affect the propensity to use mergers and

acquisitions versus other forms of new business arrangements (NBA's).

Different arrangements -- from licensing to strategic alliances to

subcontracting -- can be categorized as being most closely aligned with

one of the three economic/industrial-organizational forms. As such, it was

suggested that mergers and acquisitions share the distinction of being the

most likely arrangement in economies or industries where hierarchical

rather than market control is dominant, while more fluid arrangements--

strategic alliances or joint ventures (especially ventures for development

or other finite tasks) might be found more frequently in market-oriented

economies. In clan oriented economies (eg. Japan) ends similar to those

pursued by mergers and acquisitions in Europe might be achieved through

subcontracting arrangements. The fruits of this discussion were

interesting in that these propositions are readily testable with empirical

data. (For a closely related conceptual discussion see Boisot, 1986.)

At the same time it is important to point out the extent to which participants felt a need to draw some distinction between mergers and acquisitions. In acquisitions, there is often a clearer dominance ordering with one group being the "conquerer" and the other "the conquered" or "the victim." In mergers of firms, the metaphor of mutual conquest was suggested, in which there can be an overt or covert struggle for self-preservation and dominance. However, the propensity in mergers to think in this way seems to be related to such factors as the attractiveness of the merger, the degree to which the merger was "friendly" or hostile, and the extent to which one or both organizations involved have strong feelings or norms about the preservation of their identities (including culture).

It is possible for an aquisition to become a "countercultural influence" and thus a force that disrupts and/or changes the acquiring as well as the acquired organization. In mergers, one group may come de facto to dominate or both parties may lose their identities and may suffer high casualties (metaphorically in terms of careers, or literally in terms of illness and death ostensibly attributable to the enormous stress and anxiety in many merger and aquisitions.)

Implications and Conclusions

The roundtable discussion unearthed a rich set of themes deserving of further consideration. Professor Schein, in his essay, focusses upon the specifically managerial implications of the roundtable discussion. So in this section, I will focus upon a few topics that seem to be relatively neglected by all audiences, but that nevertheless strike me as important.

First, though the self-awareness, expectation development and

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negotiation processes of the pre-agreement stages have profound and lasting consequences for merger viability, it is clear that this family of topics has been relatively neglected. Neither the rationalistic simplifications endemic to the ex ante - macro work, nor the more relativistic, psycho-social reading favored in the post hoc - micro realm will do justice to these topics. Studies exploring managerial motivations for mergers, how identities are developed and threatened, and rich studies of the negotiation and trust building processes in the context of mergers and acquisitions are sorely needed. In the meantime, managers are well-advised to be well-aware of their own motivations and perceptual biases (macro or micro, cognitive or socio-emotional) in their own activities.

Second, the accretion of more data and knowledge along the diagonal of Figure 1 will only be beneficial if an intensive exchange and mutual appreciation can be fostered between the macro people with their conceptual strength and the micro-oriented people with their rich, multi-level data base of experience. To the extent that the phenomena are too complex for individuals to give appropriate weight to all aspects, team work both among practitioners and researchers would probably go far in building a more satisfying corpus of knowledge.

Hopefully, the COS roundtable will provide a forum for such future collaboration as well as a number of interesting agendas for future discussions.

<u>End Notes</u>

1) A recent survey in the Federal Republic of Germany estimated that, in the 1987-88 period, merger and acquisition activity increased in that country by 30%. In that reporting period 2, 046 Mergers were reported. And in the first five months of 1989 there were 60 more reported than in the same time period in 1988, for a total through May of 534 (<u>Deutschland Nachrichten</u>: 1989). Large increases in activity have also been reported in other countries.

It is not just that the apparent volume is increasing, but that the motivations to gain a competitive position in an economically unified Europe may be accelerating the decision-making time frame for such alliances, bringing new and relatively inexperienced players into the M&A arena, and decreasing (or at least not increasing) the attention paid to cultural and organizational issues as opposed to a more strict economic or strategic calculus. For these reasons it was felt that a meeting of European and American experts would be timely and useful.

2) Our roundtable discussion was no exception in that an implicit model emerged which ranged from the initial planning or analysis of the deal, to the signing of the formal agreement, to various post-signing phases of structural, interpersonal, and intergroup accommodation. (see Schein companion paper.)

3) There is also a third dimension along which participants tended to distinguish themselves. There were those participants who were more prone to focus upon the venture experience, for organizational participants, as replete with an emphasis upon emotions and behavior. Other round table members kept to a more structural or strategically-oriented point of view. In the discussion that follows, I will not deploy this third dimension, since it by and large seems to coincide with the macro-micro dimension.

4) Actually, the literatures on organizational and national cultures do not fit any single cell. Whether this underscores a weakness in my typology, reflects the ubiquitousness of culture, or, possible, the extent to which culture remains elusive or poorly-defined is unclear.

5) Culture here need not be thought of in the more restricted sense of cognitive routines (Hofstede, 1980) or of basic assumptions (Schein, 1985). Artifacts (such as office systems or compensation packages) and espoused values can have very real and troublesome effects on mergers and acquisitions.

6) There was considerable debate about whether open or closed, weak or strong cultures were key factors, and though there seemed to be some agreement that there are differences, there was not time in the context of the roundtable for a more detailed followup discussion.

7) The Asea-Brown Boveri Merger was one in which the firms involved moved very quickly, and only after the fact, did they take the time to work out the structure and details of the merger, or inform anyone beyond a very small coterie of top management.

8) One example of this is described in Buono and Bowditch (1989). But other, similar cases have been described to me by consultants.

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Levels of Analysis

	MACRO	MICRO
EX ANTE Time Frame	Institutional Context Capacity for M&A's Strategic Intent/Goals	Identity Attractiveness Revelation/Trust- building processes Awareness of Motives
	1	2
	4	3
POST HOC	Performance Outcomes Successes and Failures	Human Costs Intergroup Processes Sense-making and Socialization

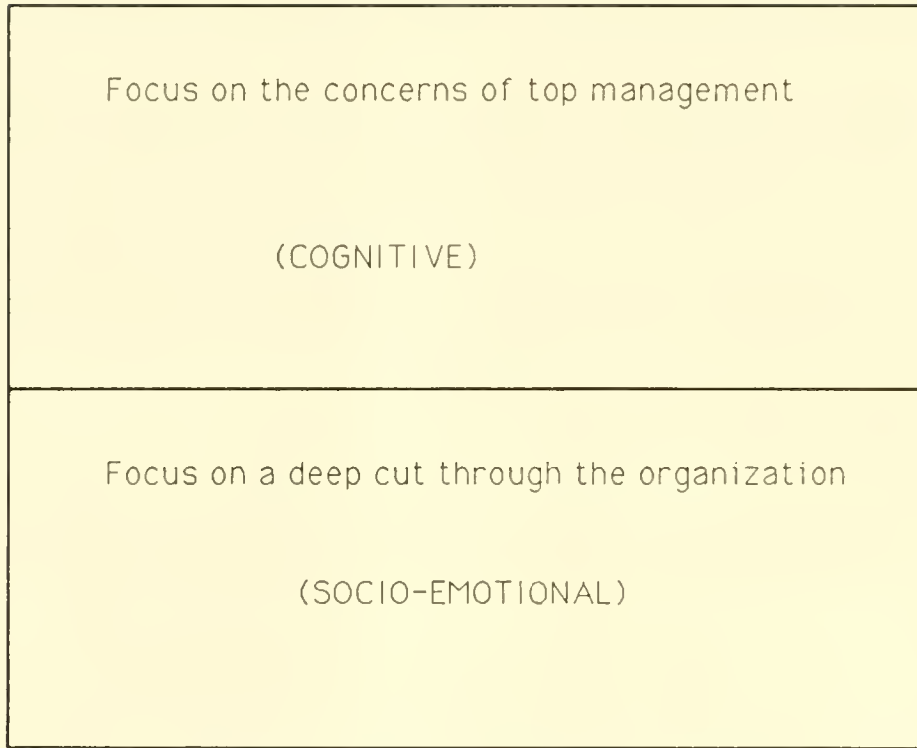FIGURE 1: CATEGORIZING THEMES RELATED TO M&A's

MACRO

MICRO

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┌─────────────────────────────────────────────────┐
│                                                 │
│     Focus on the concerns of top management      │
│                                                 │
│                                                 │
│                  (COGNITIVE)                     │
│                                                 │
│                                                 │
├─────────────────────────────────────────────────┤
│                                                 │
│   Focus on a deep cut through the organization   │
│                                                 │
│                                                 │
│               (SOCIO-EMOTIONAL)                  │
│                                                 │
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EXHIBIT 2: LEVEL OF ANALYSIS AND MAIN FOCUS

Context	Type of arrangement hypothesized to be most likely
MARKETS	NETWORKS, JOINT VENTURES, FRANCHISING
HIERARCHIES	MERGERS AND ACQUISITIONS
CLANS	SUBCONTRACTING

Exhibit 3

ECONOMIC ORGANIZATION AS CONTEXT FOR TYPES OF NEW BUSINESS ARRANGEMENTS