

# CAT

## 1. Question:

Does a difference in organizational culture affect a successful integration of back-office functions during a merger between two healthcare organizations of unequal size?

## 2. Background:

I am a consultant at BCG, my client is a large Canadian law firm. The board of directors has plans for a merger with a smaller firm. The merger is to integrate the back-office of the two organizations (ICT, finance, purchasing, facilities, personnel administration, etc.) in order to create economy of scale. The front offices and primary process of the two organizations will remain separate. It's been said that the organizational culture differs widely between the two organizations. The board of directors has asked me if this culture-difference can impede a successful outcome of the merger. Most of them intuitively sense that cultural differences matter, but they want an evidence-based advice. The cultural difference is not objectively assessed, it is merely the perception of the senior managers of both organizations.

## 3. PICOC:

**P** = organizations with a different organizational culture, back office employees

**I** = merger, integration back office

**C** = organizations with a similar organizational culture

**O** = economy of scale

**C** = healthcare organizations, unequal

## 4. Zoekstrategie:

Database: ABI/Inform Global,

Filter: peer reviewed

1. SU (acquisitions & mergers)	8847
2. SU (corporate culture)	8768
3. 1 AND 2	182
4. 3 AND SU (studies)	97
5. 4 AND (integration)	43
Relevant	<b>8</b>

## 5. Results

Author & date	Population & type of organization	Design	Measures	Outcome	Comments	Level
Saunders et al, 2009	Head office employees; hotel industry	Case study	Emotional response to the merger	Findings highlight the importance of strong leadership and open communication, and suggest the need for a pre-merger cultural audit.	small sample size, qualitative measurements	D
Nemanich & Vera, 2009	Employees in sales, research, finance and customers service; large multinational firm in the US	Survey	Ambidexterity (= ability to explore new capabilities while exploiting existing ones), learning culture, leadership	Findings support hypotheses arguing that transformational leadership behaviors and the development of a leading culture (characterized by psychological safety, openness to diverse opinions, and participation in decision making) promote ambidexterity at the team level.	Construct 'ambidexterity' not validated	D
Stahl & Voigt, 2008	unknown	Meta-analysis	Socio-cultural integration outcomes (not specified) and synergy realization (return on assets, ROA), cultural differences	Findings suggest that when a merger requires a high level of integration, cultural differences can create obstacles to reaping integration benefits. Conversely, in a merger that requires a low level of integration, cultural differences were found to be positively associated with integration benefits	Apples and oranges: studies of a different kind have all been lumped together	?
Lodorfos & Boateng, 2006	Senior managers; large size European chemical companies	Qualitative research	Perception of senior managers	Findings suggest that culture differences between merging firms are a element affecting effectiveness of the integration process	Study design highly prone to bias	D
Dackert et al, 2003	Head office employees; Swedish public service organization	Survey and qualitative research	Employees' personal view of the merger	Findings suggest that the success of the integration process after a merger is critically dependent on how employees perceive the culture of the organizations involved.	Study design highly prone to bias, small sample size	D
Weber, 1996	Top management teams; large sample of all kinds of firms (73)	Survey	Cultural differences, autonomy removal, commitment, financial performance, org type	Findings suggest a negative relationship between commitment and both cultural differences and autonomy removal.	Large sample	D
Weber & Pliskin, 1996	Top management teams; large sample of all kinds of firms (73)	Survey	Cultural differences, Information systems integration, merger effectiveness	Findings suggest a positive relationship between IT integration and effectiveness only when controlling for cultural differences between the joining firms.	Large sample	D
Somers et al, 1990	?	Survey	?	Findings highlight the importance of acting consistently with emergent organizational values and integrating members of the target organization	?	D

## 6. Conclusion:

All eight studies conclude there is a negative association between managers' perception of cultural differences and the effectiveness of the post merger integration. However, the meta-analysis points out that differences in culture between merging firms can also be a source of value creation and learning. Based on the 46 studies the authors conclude that it is likely that "when a merger requires a high level of integration, cultural differences can create obstacles to reaping integration benefits". Conversely, in a merger that requires a low level of integration, cultural differences were found to be positively associated with integration benefits. One of the cross-sectional surveys concludes that when the dominant organization also grants the smaller organization a considerable amount of autonomy, moderate cultural differences might even function as a catalyst for value creation.

## 7. Limitations:

Seven out of eight studies are cross-sectional studies (surveys). The article on the meta-analysis provides insufficient information about the research design of the 46 included studies, therefore the level of evidence of this study can not be determined. Also, only a few studies are based on hard outcome measures, most of them have collected data by means of self report questionnaires. Therefore the all-over level of evidence is low and the chance that bias has occurred is significant. For this reason it is difficult to draw hard conclusions on the outcome of the studies.

## 8. Recommendation:

In spite of the limited internal validity and the chance that bias has occurred, I find the fact that most studies point in the same direction draw significant. Particularly the outcome of the meta-analysis (culture difference + low level of integration = possible driver for value creation) I consider as relevant information for the board of directors. Based on the conclusions of this study I would advise the board of directors to label the culture differences between the two organizations as an "asset" instead of a "liability". In addition I would advise the board to grant the back office managers of the smaller organization a large amount of autonomy. Finally I would advise the board to objectively assess the culture differences between the two organizations before the merger takes place, preferably by using a validated measurement.

## 9. Reverences:

1. Dackert, I., Jackson, P., Brenner, S., Johansson, C., 2003, Eliciting and Analyzing Employees' Expectations of a Merger., *Human Relations*, Vol. 56, No. 6
2. Lodorfos, G., Boateng, A., 2006, The Role of Culture in the Merger and Acquisition Process, Evidence from the European Chemical Industry., *Management Decision*, Vol. 44, No. 10
3. Nemanich, L., Vera, D. 2009, Transformational Leadership and Ambidexterity in the Context of an Acquisition., *The Leadership Quarterly*, Vol. 20, No 19
4. Saunders N.K., Levent, A., Riordan, K., 2009, The Management of Post-merger Cultural Integration: implications from the hotel industry., *The Service Industries Journal*, Vol. 19, No. 10
5. Somers, M., Bird, K, 1990. Managing the Transition Phase of Mergers. *Journal of Managerial Psychology*, Vol. 5, No. 4
6. Stahl, G., Voigt, A., 2008, Do Cultural Differences Matter in Mergers and Acquisitions? A Tentative Model and Examination., *Organization Science*, Vol. 19, No.1
7. Weber, Y. 1996, Corporate Cultural Fit and Performance in Mergers and Acquisitions., *Human Relations*, Vol. 49, No. 9
8. Weber, Y., Pliskin, N., 1996, The Effects of Information Systems Integration and Organizational Culture on a Firm's Effectiveness., *Information & Management*, Vol. 30, No. 7