

MANAGING POST-ACQUISITION CULTURAL CHANGE: AN ACQUIRED COMPANY'S PERSPECTIVE

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Abstract

Post-M&A organisational cultural change is a traumatic experience for organisational members. It generates resistance and contributes to M&A failure. Nevertheless, the literature on managing post-M&A cultural change is scarce and largely focused on overcoming the debilitating impact of inter-organisational cultural differences on communication. We argue that focus on cultural differences is important but not sufficient for a successful management strategy. Other factors, such as how company members perceive the outcomes of cultural changes, should be taken into account. We explore how acquired companies' members justify their attitudes towards post-acquisition cultural changes. Following our findings, we provide recommendations for the guidance of cultural change in acquired companies by the acquirers' managers. We develop our arguments by building a conceptual framework using the existing literature. The framework is subsequently examined and developed further through three interview-based case studies, one of which we present in detail.

Key words: cultural change, cultural differences, cultural perceptions, management, mergers and acquisition, M&A outcomes

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INTRODUCTION

Post-merger/acquisition (M&A) cultural change has been considered a crucial factor in M&A success for over twenty years (Faulkner et al., 2003). It has also been long recognised that people involved in M&A often resist cultural change (e.g. Cartwright and Cooper, 1993; Buono et al, 1985). Despite this recognition, few studies provide insights in the management of post-M&A cultural change (Schweiger and Goulet, 2005; Ellis and Lamont, 2004). Meanwhile, management practice regularly fails to ensure a smooth post-M&A cultural transition (Head, 2001). We believe the time has come for wider research on the subject. It is particularly important to understand the possibilities for managing cultural change in acquired companies as they are often expected to adopt the cultural practices of the acquirer (Hambrick and Cannella, 1993; Nahavandi and Malekzadeh, 1988; Cartwright and Cooper, 1995; Ghauri and Buckley, 2003; Weber and Menipaz, 2003; Schweiger et al., 1987).

In this paper, we examine the factors that acquiring company's managers should consider when attempting to guide organisational cultural change in the acquired company. We approach our task by exploring why acquired company's members accept or reject cultural change in the first place. In conjunction with our findings, we develop recommendations for managing post-acquisition cultural change. We do not aim to present an objective account of cultural change but focus on subjective sense-making and attitudes of acquired company's members. Few studies explore subjectivities of organisational members in M&A, meaning that the voices of acquired company's members are rarely heard (Gertsen and Sørderberg, 2000; Vaara, 2000, 2003).

Analysing existing literature on post-M&A cultural change, we build a conceptual framework of the basic processes involved in managing attitudes to cultural change. We explored the meaningfulness of this framework in three in-depth interview-based case studies of acquired companies. All three yielded similar results and emphasised several broad factors

as important in managing attitudes to cultural change. We summarise the results of all three, but most of the paper uses only one case study for illustrations of the findings, in order to avoid sacrificing the in-depth description of the sense-making processes and organisational context.

We conceptualise attitudes to cultural change as a result of relative evaluations that acquired company's members make of their own and acquirer's beliefs, values; or objects and procedures that are seen as embodiments of these values of beliefs (Cartwright and Cooper, 1993; Schein, 1985). We also recognise the possibility that both cultures can be simultaneously evaluated positively or simultaneously rejected (Nahavandi and Malekzadeh, 1988). Further, we define successful organisational change as a mindset change (Sathe and Davidson, 2000; Champy, 1995) and therefore look for genuine acceptance of change as opposed to the "resigned behavioural compliance" that is common in organisational change situations (Ogbonna and Wilkinson, 2003, p. 1152).

Research presented here places the primary responsibility for directing cultural change in the acquired company on the acquirer's managers. We see the target's managers as caught up in the change processes equally with their employees. At the same time, we recognise the duality in the role of the target's managers. They provide support for their subordinates as well as dealing with their superiors from the acquiring company (Bligh and Carsten, 2005; Vaara, 2003). While our cases did not reveal perceptions of target's managers as cultural change agents, nor did they describe themselves as such, our findings can be applied to their initiatives if they were to act as change agents.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

It has long been noted that in post-M&A integration people judge and can perceive the culture

of one organisation as better or worse than that of the other (Cartwright and Cooper, 1993; Veiga et al., 2000). How are these judgements made by the members of the acquired company? We discern four relevant factors in M&A cultural literature: 1) management's attempts to guide cultural change, 2) differences between acquirer's and target's cultures, 3) how acquired company's members perceive the outcomes of the acquisition, and 4) how acquired company's members perceive the outcomes of specific cultural changes. Managerial control of cultural change is seen as feasible at least to some degree. Some insights exist into what types of managerial intervention are most effective. However, of the few suggested strategies, the majority focus on dealing with the effects of cultural differences. The two perceived outcomes factors mentioned above are minor considerations in the present academic discourse. We argue that they deserve greater attention. In this section we discuss the four factors, point out potential interconnections between them, and integrate them into a conceptual framework.

Cultural Differences and Managerial Intervention

Much M&A literature sees cultural differences between combining companies as the main perpetrator of post-M&A conflicts. Combining companies tend to operate in different frames of reference and this leads to misunderstanding, attributional errors and lower M&A performance (Vaara, 2003; Jemison and Sitkin, 1986; Bijlsma-Frankema, 2001; Datta and Puia, 1995; Lubatkin et al., 1999; Van Oudenhoven and de Boer, 1995; Datta, 1991; Weber and Menipaz, 2003). Differences stand in the way of smooth cultural change as misunderstandings prevent people from accepting and being empathetic towards their M&A partner. Much of the post-M&A cultural change management literature focuses on reducing misunderstandings caused by cultural differences. To quote Schweiger and Goulet (2005) who conducted a large study of **cultural learning** interventions in M&A,

“ . . . beliefs and assumptions shared by the respective employees of the acquirer and target . . . often represent deep-rooted differences between the combining firms that can lead to

challenges during integration and limit the realization of synergies from this process. . . . all acquisitions will be confronted with cultural differences that need to be clarified and managed effectively to avoid cultural conflict.” (pp. 1477-1478)

Published research proposes that misunderstandings caused by cultural differences can be reduced through interaction, communication and **cultural learning** (Elsass and Veiga, 1994; Schweiger and Goulet, 2005; Gertsen and Söderberg, 1998; Larsson and Lubatkin, 2001; Dackert et al., 2003). Interaction can take form of “deep **cultural learning**” or inter-group cultural mirroring exercises, cultural training and company picnics (Schweiger and Goulet, 2005), “social controls” or introduction programs, training, cross-visits, retreats, celebrations (Larsson and Lubatkin, 2001), and joint working teams (Dackert et al., 2003). Interaction is expected to support **learning** about the partner’s culture. Multiple hypothesised benefits can be found in the literature: perceptions of cultural similarity, cooperation, learning about and developing an appreciation of a partner’s culture, revision of pre-M&A expectations, establishing a common cultural discourse, a reduction in information filtering and attributional errors, reducing the temptation to dominate the culture of a merged organisation, reconstructing pre-M&A cultural meanings, stereotypes and expectations, signalling the legitimacy of acquired company’s culture, tolerance and empathy. (Schweiger and Goulet, 2005; Gertsen and Söderberg, 1998; Dackert et al., 2003). Empirically, Schweiger and Goulet (2005) found that deep **cultural learning** facilitates understanding, perceived cultural similarity, communication and cooperation. Larsson and Lubatkin (2001), using meta-analysis, showed that social controls support the development of shared cultural meanings.

In addition, it matters not only *what* the managers do but also *how* they do it. Larsson and Lubatkin (2001) argue that social controls work because they are inherently informal and non-authoritarian and therefore serve as a natural socialisation device. An atmosphere of psychological safety is important (Kavanagh and Ashkanasy, 2004). Studies that advocate communication argue that it must be open, honest, non-threatening, informal, non-

authoritarian, consistent with managerial actions, and free of tacit messages that could be interpreted as demeaning (Larsson and Lubatkin, 2001; Elsass and Veiga, 1994; Gertsen and Söderberg, 1998).

Lastly, a small but potentially important indication exists that not only managerial efforts curtail the impact of cultural differences, but that cultural differences can compromise the effectiveness of managerial efforts. Gertsen and Söderberg (1998) describe an instance where acquirer's attempts at social controls were rejected by the members of the acquired company as they were seen as culturally inappropriate. This shows that management interventions are culture-laden actions and the relationship between cultural differences and management actions should be seen as circular. This however remains unaddressed by the M&A cultural change management studies.

As shown above, publications dealing with overcoming cultural misunderstandings in M&A suggest a wide variety of potential outcomes of **cultural learning** (cultural understanding, appreciation, empathy, etc.). However, despite the diversity, the suggested possible outcomes are uniformly positive. Potential negative outcomes of **cultural learning** are not considered. For instance, why should **learning** necessarily result in appreciation of partner's culture? Why should not target's employees discover, through **learning**, realities that are even more unpleasant than previously assumed? In addition, understanding someone's culture does not necessarily make one willing to adopt it. Target's members can be tolerant of acquirer's culture, but only as long as they are not asked to partake in it.

The "**learning**–appreciation" stance, if taken further, evokes an assumption that all organisational cultures are equally appreciable. One only has to transcend his or her own cultural myopia to appreciate the other. This may be the case, but such theorising gives rise to further questions: If all cultures are equally appreciable, why should the members of the

acquired company adopt the culture of the acquirer and not maintain their own? Is the precedence of the acquirer's culture based on the simple fact that the acquirer wields more power? Thus, the "cultural conflict" appears not to be as much about cultural differences as about power.

Such reasoning is not optimistic for the future of post-acquisition cultural change management in the present capitalist system. However, this paper is not intended as an anti-establishment polemic. The aim is to address resistance to cultural change within the bounds of today's M&A. To do so, we argue that managers should go beyond resolving cultural misunderstandings. Two additional directions for managerial action are explored in the sections below. No systematic investigation of these factors exists in present M&A cultural literature. They emerge as tangential issues in studies that have other goals. We believe that they are potentially powerful explanations of cultural choices and should therefore be considered as objects of managerial action. First, people's perception of the outcomes of the acquisition for themselves and their own company can make them either more or less tolerant of cultural change. Second, people can find specific cultural changes beneficial for themselves or their organisation.

Perceived Outcomes of Acquisition

It has been hypothesised that the target's members are more willing to adopt the acquirer's culture if the acquirer is seen as a rescuer either from financial failure or a previous unfair or incompetent owner. Similarly, adoption of acquirer's culture could be encouraged by perceptions of future organisational success, e.g. capital investment in the target by acquirer and perceived business compatibility (Kanter and Corn, 1994; Nahavandi and Malekzadeh, 1988; Veiga et al., 2000). Gertsen and S  derberg (1998) observed that people were more tolerant of cultural differences when they saw the integration and change as beneficial for

their careers. Improvements in personal status and feeling that one has an opportunity to make a mark in an organisation are also proposed as encouraging positive attitudes to change (Kanter and Corn, 1994). Such motivations for accepting acquirer's culture can be called political. Members of the acquired company are willing to trade their own cultural self-determination for benefits they expect can be gained through integration.

The importance of politics in organisational change and inter-group relations is recognised in the broader literature (e.g. Buchanan and Badham, 1999; Turner, 1999; Farrell and Petersen, 1982), including in M&A (see insightful paper by Vaara, 2003), but receives only marginal attention in research on managing cultural change in M&A. In-depth exploration of political motivations may be lacking because they appear beyond managerial control: How can the acquirer's managers arrange for guaranteed positive outcomes of integration? Should only financially failing companies be acquired? We argue that managers may not be completely powerless in this situation. Management opportunities exist in influencing the organisational post-acquisition discourse. Conversations in post-acquisition integration can be framed in a way that makes visible positive aspects of the acquisition, where such exist. It is important to note that discourse management does not need to be of a manipulative and reality-distorting kind. In fact, honesty is important as dishonesty and discrepancies between managerial pronouncements and behaviour create resistance (Elsass and Veiga, 1994; Schweiger and Denisi, 1991). Further, coming from a social constructivist position (Berger and Luckman, 1966), a dialogue can be initiated between the acquired and acquiring company with regard to the kind of outcomes which should be considered as positive or even relevant in the first place. Talk should not be viewed as a passive information transmitter. Conversations accentuate certain events and interpretations while concealing others (Ford and Ford, 1995; Feldman, 1990). Thus, managers "can be free to create and choose a more empowering interpretation that reframes the conditions and circumstances and

permits things to move forward in a different way” (Ford, 1999, p. 495). Discourse interventions in cultural change have been documented – Vaara (2000) describes managers emphasising cultural compatibility between combining companies to foster a sense of togetherness – but this is the only report in M&A cultural literature.

Perceived Outcomes of Specific Cultural Changes

The last factor examined in this paper, how organisational members evaluate specific post-acquisition cultural changes, is even less explored. Nahavandi and Malekzadeh (1988) hypothesise that target’s members may want to adopt acquirer’s culture when they perceive their own culture as dysfunctional and hindering performance. Empirically, Kavanagh and Ashkanasy (2004, p. 15) observe that “In order to reduce the forces in favour of status quo . . . it is necessary to persuade people of the need for change by convincing them that the current way of doing things is not working.” Cartwright and Cooper (1993) find that people resist cultural changes that restrict their autonomy. Gertsen and Sørderberg (1998) reported an instance of employees accepting stricter financial controls because they felt that it meant the acquirer was ‘on top of things’ and would perform better than previous management. Noting this limited evidence, we argue that people’s perceptions of practical outcomes of specific cultural changes can influence their attitudes to adopting acquirer’s culture. Here the emphasis is not on cultural loyalties as a variable in the political strategy, but on practical consideration of whether certain cultural changes, in themselves, are beneficial or detrimental.

This proposition finds support in the theoretical reasoning of Dent and Goldberg (1999). They argue that resistance to change should be viewed as a reaction to either badly managed change, or to change that has adverse effects for company members. In other words, resistance is rational. Failure to recognise this can lead to ineffective and even harmful conflict resolution strategies. We suggest that the acquirer’s managers should engage in a

dialogue with the target's members about the potential consequences and rationalisations of particular cultural changes. The acquirer's managers should also be prepared to address the negative consequences of cultural change for the target's members. This can be done through taking measures to counteract negative effects and through adjusting the timing, the degree of change and where it is introduced.

The discussion in the last two sections does not demonstrate a lack of validity in the “cultural **learning** – cultural understanding/appreciation” studies. We recognise that differences in cultural schemas can and do cause misunderstandings. Our purpose here is to suggest supplementary explanations for these findings. For instance, **learning** may not always lead to appreciation, but may nevertheless work because it can 1) make visible the political benefits of submitting to cultural change and 2) create the possibility of understanding the value of particular cultural elements in particular circumstances, as opposed to broad acceptance of acquirer's culture.

Conceptual Framework

Figure 1 presents our conceptual framework of factors pertinent to managing post-acquisition cultural change as drawn from the existing literature. We conceptualise target's members' attitudes towards post-acquisition cultural change as a result of relative evaluations of their own and acquirer's cultures. Acquirer's managers can impact the outcome of cultural comparisons by working in three directions: First, acquirer's managers can reduce misapprehensions due to cultural differences, through cultural **learning** interventions (however, cultural differences can compromise the effectiveness of managerial actions). Second, they can create political motivations for change through initiating discussions about and emphasising the benefits of post-acquisition integration. Third, managers can rationalise

and demonstrate the benefits of specific cultural changes and address target's members concerns about the consequences of cultural changes. The nature of managerial intervention also matters, i.e. whether it is fair, non-authoritarian, etc. Below, we explore whether this model is a meaningful way of looking at managing post-acquisition cultural change.

INSERT FIGURE 1 ABOUT HERE

METHOD

The nature of the conceptual framework encouraged a qualitative research approach. The framework emphasises individual subjective interpretation of organisational reality. Coupled with the broad nature of the influencing factors included in the framework, this precluded the detailed and all-encompassing operationalisation suitable for an effective questionnaire. In addition, specific cultural changes had to be examined in relation to their consequences for the company members, and adequate understanding of this relationship necessitated “thick descriptions” of the company context (Geertz, 1973; Williams, 2002; Ghauri and Gronhaug, 2005; Alvesson and Sköldbberg, 2000; Banister et al., 1994; Ogbonna and Wilkinson, 2003; Smircich, 1993; Schein, 1996).

Following these requirements, we used case studies based on in-depth semi-structured interviews. Three cases of acquired companies were studied, resulting in a total of 65 interviews. In this paper, we use a case of a small UK company, Uni-Tech, which was acquired by a large German concern, Standfest, as a focal example, although the results from other cases will also be reported. Table I provides an overview of the cases (all names are changed).

INSERT TABLE I ABOUT HERE

We chose to investigate smaller companies to avoid the complexity of large organisations. The effect of post-acquisition changes in a large organisation can differ drastically from one group to another (Schweiger and Goulet, 2005). In addition, in M&A research little attention has been given to small organisations (Very et al., 1996). Overall, we aimed for diversity in the sample of cases to explore our ideas in varied organisational, industrial and cultural contexts. Although in all three cases the target companies were British, the acquirers belonged to different nationalities. The cases also varied in terms of industrial background, company sizes, nature of acquisition, and target's pre-acquisition performance. Deal details were initially obtained from the Thompson Financial database.

To capture changes that occurred in the attitudes of the respondents we conducted three rounds of interviews at three-month intervals. No study identifies a time period for completion of cultural change, but some suggest the length of overall company integration. The estimates, however, vary widely. Marks and Mirvis (1992) suggest a two year timeframe; Appelbaum et al. (2000) suggested 12-18 months. Empson (2000) studied mergers in her sample over a three year period. Krug and Nigh (2001) found that the major effects of cross-border acquisitions took six years to become apparent. We attempted to keep within smaller bounds; the times of first interview rounds are shown in Table I. Repeated rounds of interviews increased the validity of the findings. It was possible to use research participants as a "lens" for checking research accounts (Creswell and Miller, 2000, p. 125).

The respondents in all three cases represented all functional departments and all hierarchical layers of the organisations. Risberg (2001), Lohrum (1996) and Dackert et al. (2003) point out that most of acquisition research is conducted from a managerial perspective and argue that top managers cannot be trusted to represent the views of all organisational members. The interviews were recorded with the permission of the participants and fully

transcribed for analysis. An interview protocol was followed, but the conversation was flexible, allowing the respondents to take initiative. Received information pertaining to individual respondents was kept strictly confidential from their superiors.

The interview data was analysed with the aid of the code-based qualitative data analysis software QSR N6. The use of computer-assisted qualitative data analysis software (CAQDAS) offers several important advantages. The first is speed of analysis, for instance in retrieving coded text passages or in searching for overlaps between passages. Time savings reduce researcher fatigue and encourage “playing” with the data – creative experimentation and detailed analysis – which can improve the thoroughness of analysis. (Silverman, 2000; Weitzman, 2003; Sinkovics, 2005). The second advantage is organisation. Qualitative research often results in voluminous data that can be hard to order. CAQDAS eases the task of organisation by making ordered list of codes and instant retrieval of coded material possible (Fielding and Lee, 1998). Third, CAQDAS encourage consistency in analysis by minimising the chances of accidentally ignoring relevant sections of text or misplacing coded text segments. Easy retrieval of *all* relevant text segments means that there is less danger that the analysis will amount to a simple extraction of “‘juicy’ quotes” (Weitzman, 2003; Fielding and Lee, 1998, p. 58). Lastly, CAQDAS promotes contextualised analysis by enabling the researcher to switch easily between the coded passages and the wider text (Fielding and Lee, 1998).

We coded all sections of text that described the targets’ and acquirers’ cultures or referred to cultural comparisons. Cultural descriptions were categorised as positive or negative, according to the respondent’s subjective evaluations. A comparison of the positive and negative categories indicated respondents’ overall attitudes towards adopting the acquirer’s culture. Subsequently we examined how respondents justified their cultural evaluations and grouped the emergent justifications in various categories.

FINDINGS

First, we provide a brief overview of the acquisition background and the motivations for post-acquisition cultural change to set the context for further discussion. Next, we describe Uni-Tech's members' attitudes towards post-acquisition cultural change. Finally, we provide a detailed discussion of how the interviewees justified their attitudes. Table II below provides a brief description of interview respondents in the focal case.

INSERT TABLE II ABOUT HERE

Acquisition Background

Uni-Tech is a small UK-based IT engineering company that originated as a spin-off from university research. The founders and the original staff were all former academics. Although Uni-Tech produced very high quality products and its initial project was successful, it never achieved the forecast sales. The respondents reported two reasons for failure: First, Uni-Tech's founders lacked market orientation. Product development was driven by intellectual curiosity rather than market research and financial planning. Second, Uni-Tech lacked resources for an effective sales and marketing force.

When it became clear that Uni-Tech would not survive alone, a decision was made to sell. Standfest was a natural choice of buyer as it was a direct competitor. Moreover, Uni-Tech had held talks about possible cooperation with Standfest in the past. By joining Standfest, Uni-Tech hoped to avoid bankruptcy and gain financial and sales support. Standfest was interested in Uni-Tech's highly qualified engineers. Shortly after the completion of the acquisition, the former owners (founders) of Uni-Tech left the company. Reportedly, they could not adjust to the loss of power. Three German expatriate managers joined the company

in the capacities of General Manager, HR Manager and Commercial Manager.

All Uni-Tech respondents were enthusiastic about the integration with Standfest at the operational level. They understood that Standfest rescued them from bankruptcy and were looking forward to merging product lines and joining Standfest's sales network. This enthusiasm was sustained throughout all three interview rounds. However, in later rounds respondents confessed that their expectations of the integration pace and resulting benefits were too high. This generated some scepticism, but did not hamper the desire for integration.

Origins of Cultural Change

Uni-Tech was not culturally uniform but had two main groups: engineers, the dominant group, and commercial workers. Uni-Tech's engineers described themselves as focused on intellectual challenge. They paid little attention to deadlines, were driven mainly by curiosity about interesting problems, took pride in their work, and saw themselves as innovative and committed to quality:

“... we don't actually do it for the money, we do it for the challenge. If they pay us – that's better. But it's the intellectual challenge as much as anything.” (Senior Engineer)

“... one of the problems with taking on a load of people who've got PhD's – if you give them a job to do, they are inclined to do it and then say 'oh, this needs doing as well' because that's the kind of mentality you get. The PhD people are always looking around and fiddling, tinkering ...” (Team Leader)

Uni-Tech itself was described as a flexible, agile, highly innovative company. It was also seen as a small place where employees could “make a difference.” These views were shared by all six respondents. However, the Process Manager, a member of the commercial group, had additional opinions. While he recognised that innovation and flexibility were immensely valuable, in his view, Uni-Tech engineers largely ignored other qualities needed for a successful business, namely market orientation, discipline and timely delivery of projects.

It was difficult to encourage these qualities as the company was dominated by engineers or the “academic pecking order”:

“I see it very much in the commercial group viewpoint, which is ‘you [engineers] told us that you are going to have it finished by then and you haven’t, and you’ve let me down, because you’ve made a liar of me – I’ve been out telling customers that they could buy this in November, and now they can’t.’”

Uni-Tech respondents felt pressure for cultural change after the acquisition. The change was triggered by the simple fact of operational integration with Standfest – paperwork increased, the decision-making was slower in a larger company. The main changes resulted from the need to integrate Uni-Tech in Standfest’s production and sales processes. Standfest placed great importance on honouring internal deadlines and delivering products to customers on time. When the first project conducted by Uni-Tech engineers for Standfest, shortly before the first interview round, was barely completed on time, the German managers demanded that Uni-Tech engineers improve their project management and change their attitude towards deadlines. This became the dominant theme in the cultural conflict between Uni-Tech and Standfest.

It is important to emphasise that the commercial group, partly aligned in opposition to the engineers, was more culturally similar to Standfest. For them, the departure of the former owners resulted in the lifting of the engineering dominance. As will be shown, the cultural change attitudes of the Process Manager, a member of the commercial group, differed from those of the engineers.

Evaluations of Own and Acquirer’s Cultures

In Round I interviews, the respondents, with exception of the Process Manager, reacted largely negatively to the cultural changes that were occurring in their company. They

evaluated their own culture very positively while offering mostly negative comments about Standfest's culture. Their opinions, however, changed in Rounds II and III.

During Round I, respondents saw their company and themselves as innovative, talented, highly quality-oriented, flexible and participative:

"I was very proud of the fact that you could open a newspaper and whatever was [reported as] cutting edge [technology], we were already doing it." (Facilities Manager)

"The commitment to high quality was very, very good indeed because we were constantly trying to think of ways of improving what we were doing. That kind of very much keys into the PhD engineer's mentality . . . That, from the engineering, tinkering point of view is very, very exhilarating." (Senior Engineer)

The negative comments on own culture were sparse and mostly authored by the Process Manager. He criticised Uni-Tech for being dominated by academic interests, and the engineers for inability to plan and respect deadlines.

In Rounds II and III, the other respondents gradually joined the Process Manager's critical outlook. They increasingly recognised that Uni-Tech lacked commercial orientation and business knowledge, and that Uni-Tech's project management was not optimal. The themes of timeliness, project management and business orientation became more prominent in the interviews:

"We made some really stupid business decisions based upon excellent technical decisions and we suffer badly because of that." (Senior Engineer)

"As an engineer, you are overly optimistic, inevitably. You think 'Oh yeah, that'll be [a tight timeline], but we can do it,' and 'I'm good at this, I'll be able to sort that out.' But that's all based on there being no problems. But it's never the case when you are writing new stuff. . . A big problem [is] not having done sufficient thinking up front to work out exactly what you are going to have so you can fully plan it out." (Team Leader)

These changes paralleled the changes in attitudes towards acquirer's culture. There were a fairly large number of positive comments on Standfest's culture in Round I, but most were authored by only two respondents. The Process Manager praised Standfest for ability to plan, achieve objectives and maintain discipline. The Facilities Manager appreciated Standfest's paternalistic treatment of employees. However, she criticised Standfest heavily for making Uni-Tech a less exciting, less creative and more rigid company. The engineers were of a similar opinion on the latter. They also viewed Standfest as a place where individual contributions mattered little.

In Rounds II and III the engineers, particularly the higher-ranking ones (Director of Engineering and Senior Engineer), adopted a more positive outlook. Standfest was almost uniformly praised for planning and objective-setting efforts and for a pragmatic approach to business. The respondents' focus shifted away from the fact that Standfest was making Uni-Tech more rigid and less exciting. The resulting attitude was well-summarised by the Senior Engineer:

"My belief is that there is no way Uni-Tech has got the best set of practices in everything. I also believe that Standfest can't have the best set of practices in everything, so if I can start looking at ways that they do certain things compared with the way that we do certain things, and I pick the best of both, then I can try and improve what I do. If I can push some of those into Standfest as well, then I can try and improve what they do."

What caused a change in attitudes towards adopting Standfest's culture? The following section will address this question.

Justifications of Attitudes towards Cultural Change

Uni-Tech respondents used a wide variety of reasons to justify their attitudes towards adopting Standfest's culture. In addition, often no justification but the fact that Standfest's culture was "different" was provided. Table III summarises the justifications and shows the

relative importance of each in each interview round and across all three rounds. The table also shows the results obtained in other two cases. The results are similar in all three in terms of the types and relative occurrence of justifications. Perceived outcomes of cultural changes, management actions and cultural differences played a role in the respondents' attitudes. The only conceptual framework factor not found in the case data was the perceived outcome of the acquisition or political motivations. Acquisition outcomes were perceived by the Uni-Tech respondents most positively in Round I where the resistance towards cultural change was the strongest. In later rounds, respondents became aware that they were overly optimistic and became more sceptical. Nevertheless, their acceptance of cultural change grew. Comparing the three cases, we found that acceptance of cultural change was not higher in the two cases where target companies were rescued from bankruptcy than in Case 3 where a successful company was acquired. The three sections below discuss each emergent factor.

INSERT TABLE III ABOUT HERE

Management of Cultural Change

According to the respondents, Standfest managers in Uni-Tech were not very active in managing cultural change. However, respondents did regard certain actions of Standfest managers as significant whether or not they were intended for guiding cultural change. The most notable among these were: Standfest's fairness, the fact that Standfest ensured a degree of continuity of Uni-Tech's culture after the acquisition and Standfest's use of social controls.

The justification of Acquirer's Fairness has two dimensions: the intrinsic fairness of certain elements of acquirer's culture, and fairness in how specific cultural changes were implemented. The first dimension relates to the outcomes of cultural changes factor and will be discussed in a later section. The second concerns the nature of managerial actions and

therefore the management of cultural change factor. Here engineers articulated their own acceptance of changes, but stated that they were not given the right tools to successfully change their behaviour:

“We have a guaranteed bonus this year. We are looking at it with a certain amount of amusement. My objectives for the year against which my bonus would be judged, are irrelevant to what I am doing. The main bulk of my time is spent working on [a project that] doesn’t appear on my objectives, whereas something that has a large amount of bonus attached to it I’ve more or less been told to drop.” (Senior Engineer)

An important factor that contributed to the acceptance of cultural change was that respondents did not see their own culture as completely replaced by the acquirer’s culture. They emphasised that many elements of the old culture, such as valuing creativity and interesting work, would be incorporated into the new order:

“[Integration should] change exactly how we make our plans, whether things are laid by how clever the engineering is or whether you are working out what the cost effective solution is and applying creative engineering to that. So underneath it all there is still creative engineering.”
(Director of Engineering)

The respondents pointed out that the Standfest management actively tried to preserve certain elements of Uni-Tech’s culture. The Standfest managers were motivated by their strategy: they wanted to preserve Uni-Tech’s engineering talent.

“I think [Standfest General Manager] was coming with his eyes already pretty open that things were going to be pretty different, and yes, he is attentive, in some ways he’s a little bit too careful.” (Process Manager)

As a result, the switchover was not as traumatic as a total renunciation of the old culture. The negative outcomes of cultural changes such as stress caused by a sudden change to a new system were reduced.

Finally, the respondents associated positive perceptions of acquirer’s culture with social controls. Cross-company visits presented an opportunity to study Standfest’s

motivations for working in particular ways. Training sessions allowed engineers to acquire and appreciate project management skills. Higher-ranking respondents were more accepting of cultural change. Their position allowed them a closer contact with Standfest and a deeper understanding of Uni-Tech's performance problems:

"I'm probably less sceptical than a lot of people. I suspect there are two reasons for that. One is that I have a lot more experience with Standfest than other people, and another is the position I was in before: I have a lot more knowledge about how bad things would have been without Standfest, which probably makes it a lot easier for me to be positive about Standfest despite some of the changes we have to consider." (Director of Engineering)

In this sense, cultural **learning** led to increased understanding and appreciation of acquirer's culture. However, it was not consistently so. Close contact with Standfest also allowed the Director of Engineering to observe some of the "dark sides." For instance, he complained about Standfest's internal company politics that he had to face once in close contact with other managers.

Consequences of Cultural Change

Four different justifications used by the respondents can be related to the perceived outcomes of cultural changes factor in the framework: Practical Outcomes of Cultural Changes, Status Issues, Acquirer's Fairness and Acquirer's Competence.

In terms of Practical Outcomes of Cultural Change, a large part of respondent's rhetoric about acceptance or rejection of cultural change in all three interview rounds revolved around practical justifications of change. It was a major justification for both positive and negative evaluations of acquirer's culture. Changes that were perceived as benefiting Uni-Tech were accepted and ones that were not were rejected:

"There is less of an entrepreneurial feeling [in Uni-Tech], but I suspect that's because the founders have all gone now . . . you get rid of the founders, you lose some of the entrepreneurial mechanisms. Sometimes you need entrepreneurs, but sometimes you just need

to put them in a box and bolt it firmly closed because they can waste an awful lot of time. So, yes, it's a bit more dull, but a bit more stable.” (Senior Engineer)

Importantly, in many cases, the respondents were prepared to change some of their most valued practices in exchange for others, seen as more beneficial or practical.

“Now we don't quite aim for [perfect quality product], we aim for good enough, which is not quite as satisfying, but it's realistic.” (Team Leader)

Adopting certain elements of Standfest's culture, mainly better project management and business planning, was seen as providing solutions for missed deadlines problems. These cultural changes promised to align Uni-Tech with the demands of the market and improve sales. Rejection of some other elements of Standfest's culture was explained by fears of decreasing quality, increasing costs and inefficiencies, and worsening customer relations. It is notable that by bringing customers and market conditions into the conversation, the respondents were clearly considering external context in their cultural evaluations.

Respondents judged Standfest's culture in relation to what was currently demanded by the market.

Respondents also justified acceptance of changes by considering the outcomes for themselves personally. On the negative side, some found their work less fulfilling. On the positive side, increased job security was appreciated. The Practical Outcome of Cultural Changes justification demonstrated that, in the mind of organisational members, cultural change can have real positive or negative consequences, and that these consequences are a central consideration in cultural evaluations.

Status Issues was another such justification. It concerned respondent's personal power in the organisation. For instance, engineers felt that they lost part of their influence over company decision-making because Standfest was less democratic in nature. They resented the increased distance between employees and managers and felt that in a large organisation their personal contributions carried less weight:

“You want to see that what you are doing is actually beneficial. It’s all right doing interesting stuff, but you actually want to see that you are doing something worthwhile. And in a big company it’s harder to see what effect you are having.” (Team Leader)

The Process Manager, on the other hand, explained much of his enthusiasm for Standfest’s financial discipline as providing an opportunity to curtail the engineers’ dominance in Uni-Tech and increase the status of the commercial group.

Respondents also appreciated cultural changes leading to adoption of intrinsically fair values. For instance, they praised Standfest’s for being paternalistic and providing job security and training for employees in Uni-Tech instead of engaging in asset stripping:

“The British management approach would be very much ‘all right, we bought it, now where can we start saving money?’, whereas [Standfest] guys seem to be more focused on the idea ‘ok, we bought it, now how can we make the most out of it,’ which is different.” (Process Manager)

Finally, interview respondents were likely to accept practices that were not only seen as beneficial and but also as areas of Standfest’s competence. This provided assurance that adoption of practices will lead to successful outcomes:

“The bonus scheme and the objectives setting are useful, I think. Because [Standfest] know how to make it work properly, the bonus scheme starts having real meaning. By having real meaning, you have to do a better job of it.” (Director of EngineeringI)

This finding is congruent with Covin et al. (1997) who showed that the use of expert power by the management increases satisfaction with the merger.

Cultural Differences

In a number of instances the data showed that cultural differences between Uni-Tech and Standfest influenced respondents’ perceptions of Standfest’s culture and therefore the relative evaluations of own and acquirer’s cultures. As Uni-Tech’s members used their own culture as an interpretation framework, they sometimes misinterpreted Standfest’s values.

In one case, misinterpretations arose in conjunction with the differences between Uni-Tech's and Standfest's company size. Uni-Tech's members were accustomed to working in a small company where decisions could be made quickly, communication was efficient and little time was spent on administrative work. Communication procedures in Standfest, a large organisation, were more complicated, slower than in Uni-Tech, and required extensive administrative support. Uni-Tech respondents, perceiving their own practices as the norm, initially interpreted Standfest's procedures as a symptom of inefficiency and low commitment to quality:

“Although we will not take on board the entire project development mechanism they have at Standfest, we'll be adopting some of them. People will be spending more time just pushing paper around rather than actually producing a quality product.” (Engineer, Round I)

In the later rounds, an understanding arose that extensive administration is unavoidable in a large organisation and that Standfest's procedures can actually contribute to project success:

“I found that [Standfest's] quality assurance and the project management overheads . . . seemed a lot, and it seemed like there was a lot of paperwork to fill in, and that it was maybe took an extra quarter of the time. But if those procedures had been in place [in Uni-Tech] and followed properly, I don't think this [very late] project would have been in the state it's in.” (Engineer, Round III)

In a similar way, Standfest's strict internal procedures were initially widely interpreted as indicating a lack of creativity and flexible thinking. Here respondents made comparisons with their own unstructured way of working that was associated with creative drive. In the later rounds, it was recognised that strict procedures had more to do with organisational discipline and market pressures than with an inherent lack of creativity.

The above examples also demonstrate that cultural differences can influence how people perceive outcomes of specific cultural changes. The respondent's cultural background initially prevented them from seeing the potential beneficial outcomes of changes.

Interaction with Standfest allowed Uni-Tech respondents to obtain a more in-depth understanding of Standfest's culture and overcome the limitations of their own meaning frameworks. As a result, rationales behind certain values and routines became visible. This is exemplified by the quote from the Director of Engineering at the end of the *Management of Cultural Change* section. This is also likely to be the reason for the marked decrease in the number of unexplained cultural evaluations in Rounds II and III compared to Round I and the growth in the use of Practical Outcomes of Cultural Changes justification in all three cases (see table III).

Cultural differences also constrained management efforts in guiding cultural change. Particularly, the effectiveness of social controls was impacted. For example, while engineers viewed some training sessions offered by Standfest as useful, others were seen as unsuitable for engineering culture:

“What upsets me about training sometimes is it drags on for days and all the time you are thinking ‘I’ve got a lot of work to do! What am I still doing here watching somebody who is drawing squares on the board and dividing them up into smaller squares and saying ‘this is your brain’?’ The slow speed of these things just gets to me a bit sometimes, it’s very irritating for people who by and large have got one or two or sometimes three degrees and are used to getting data at a quite higher rate and assimilating it very rapidly.” (Team Leader)

Discussion

The findings indicate that our initial conceptual framework is a meaningful tool for analysing acquired company's members' attitudes towards post-acquisition cultural changes. Three of the factors included in the conceptual framework – management of cultural change, cultural differences and perceived outcomes of cultural changes – were reflected in the interview data.

In this section we discuss the factors and the relationships between them and integrate them into a revised framework.

Perceived outcomes of the acquisition did not play a role in cultural attitudes. It is possible that it did not emerge as a significant factor because this project investigated genuine attitudes towards change as opposed to compliance that can occur even when underlying attitudes are negative. Political gains may motivate outward compliance, but may not be enough to produce a genuine change of opinion.

We find support for the assumption that employees and managers can resist cultural change because their cultural meaning frameworks cause them to misinterpret acquirer's culture, and that this can be overcome through cultural **learning**. The findings show that acquirer's managers can reduce cultural misunderstandings by encouraging inter-company interaction and cultural **learning**. At the same time, it was evident that cultural differences can impact the effectiveness of management efforts. Respondents' resistance to training indicated that social controls, while encouraging cultural understanding, can themselves be culture-laden. Therefore, our original assumption of a circular relationship between management efforts and the effect of cultural differences was supported.

Notably, cultural differences and resultant misunderstandings provided an only partial explanation of attitudes. Practical considerations played a central role in the respondents' decision-making. Respondents constantly evaluated the outcomes of *specific* cultural changes for themselves and their company. Cultural **learning** did not always result in appreciation of acquirer's culture as sometimes it revealed negative (e.g. unproductive) aspects of acquirer's values and practices. We conclude that considerations of how target's members rationalise change and resistance to it should play an important role in the management strategy. Acquirer's managers should address the real or potential negative consequences of cultural changes. In addition, open conversations between target's members and acquirer's managers

can be used to address negative perceptions in a consultative manner. Discussions can reveal rationales behind negative perceptions, give acquirer's managers an opportunity to demonstrate their own competence and the potential positive outcomes of changes, and address misunderstandings that cause unjustified negative perceptions.

Finally, we find that members of the acquired company account for the company context, both internal and external, when making cultural comparisons. Uni-Tech respondents considered company finances, market and industry conditions, and competitors and customers when assessing cultural change. Their reassessment of their own culture was in part motivated by market pressures and Uni-Tech's performance problems. They knowingly sacrificed part of their creative freedom as they saw their old culture as unsustainable in a competitive business environment. Although the present literature considers the role of organisational context in cultural choices (as in perceived acquisition outcomes), the role of external environment – e.g. market conditions and customers – is not explored.

Figure 2 presents the resulting framework of managing post-M&A cultural change.

INSERT FIGURE 2 ABOUT HERE

Managerial Implications

The framework has several implications for the management of post-acquisition cultural change. First, we are optimistic about the possibility of managers having an impact on the course of change. Second, we find that, in devising management strategies, it is essential to account for how the members of the acquired company perceive the consequences of cultural changes. Educating individuals about the acquirer's culture is not sufficient to ensure a positive attitude. Cultural **learning** can reduce misunderstandings, but it may not provide acquired company's members with a convincing rationale for change in their particular

organisational and market/industry context. It will also not address any impact cultural change may have on organisational processes and individual status.

Third, we emphasise the importance of being aware that acquirer's managers' cultural background can impact the effectiveness of their integration efforts in the acquired company. Similarly, target's cultural frameworks can influence how its members assess the outcomes of cultural changes.

Fourth, our findings have implications for the possibility of pre-acquisition evaluation of cultural fit between the target and the acquirer. Pre-acquisition assessment of cultural fit of compatibility is recommended by a number of researchers as a way of forecasting future culture-based conflicts (e.g. Cartwright and Cooper, 1993; Weber, 1996; Marchand, 2004; Morosini and Singh, 1994). We find that there are significant practical obstacles to this approach. Not only does the acquirer need to assess the differences between the cultures, but also how cultural changes may affect the members of the acquired company. The subjective and context-dependent nature of target's members' cultural evaluations further complicates pre-acquisition cultural valuation. We do not suggest that pre-acquisition cultural assessment should be discarded. On the contrary, it could provide a useful starting point for inter-organisational cultural dialogue. The course of cultural change, however, will depend to a greater extent on how managers deal with real-time post-acquisition concerns.

Last, the findings point to the great importance of cultural self-awareness on the part of the acquirer. If the acquirer's managers are to rationalise cultural changes for the target's employees, they will first need to know what the various elements of their own culture are and how they affect the functioning of their own company – e.g. whether they contribute to organisational success and employee satisfaction. In this way, we support previous statements about the importance of cultural awareness (Larsson and Risberg, 1998; de Beaufort and Lempereur, 2003).

Conclusions

In this paper we presented an investigation of the acceptance or rejection of post-acquisition cultural change by members of acquired companies. The research focused on respondents' subjective decision-making processes. We have aimed to enunciate the factors which should be considered by the acquirer's managers when attempting to guide post-acquisition cultural change. We found that acceptance or rejection of cultural change can be influenced by manager's actions, and that managers' actions should focus on two issues: resolving cultural misunderstandings and addressing negative perceptions of outcomes of cultural changes. Managerial strategies should also account for internal and external company context. This study contributes to M&A cultural research by revealing the importance of factors that are currently under-emphasised and under-explored in M&A cultural literature: the outcomes of cultural changes, culture-laden nature of managerial actions, and external acquisition context. An in-depth knowledge of subjective sense-making of organisational members is necessary for devising effective change management strategies. The present focus on cultural misunderstandings is insufficient for this.

Increased effectiveness of management initiatives is not the only expected beneficial outcome from accounting for how target's members rationalise post-acquisition cultural change. It can contribute to a more ethical and equitable nature of culture management. It creates a possibility for the voices of the acquired company's members to be heard and for their opinions to be included in change strategies. Acquisitions are often stressful and traumatic events for members of acquired companies. To minimise the trauma, negative effects of post-acquisition change, including cultural change, need to be openly addressed.

Future research should involve larger-scale studies to further explore the framework and investigate the effectiveness of various management techniques. The influencing factors

in our final framework are deliberately broad, to permit flexibility in operationalising these variables in future studies. The politics of resistance to cultural change warrants further exploration. Do political motivations produce genuine change of opinion or only have power to evoke behavioural compliance? How do political interests structure cultural discourse? Conversation management in post-M&A integration and its role in constructing cultural realities is another emergent direction. Ways of addressing practical outcomes of cultural change for the acquired company should also be explored. Overall, we hope that this study will be followed by others that will produce a clearer picture of managing post-M&A cultural change.

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Figure 1. Managing acquired company's member's attitudes towards cultural change:
A conceptual framework

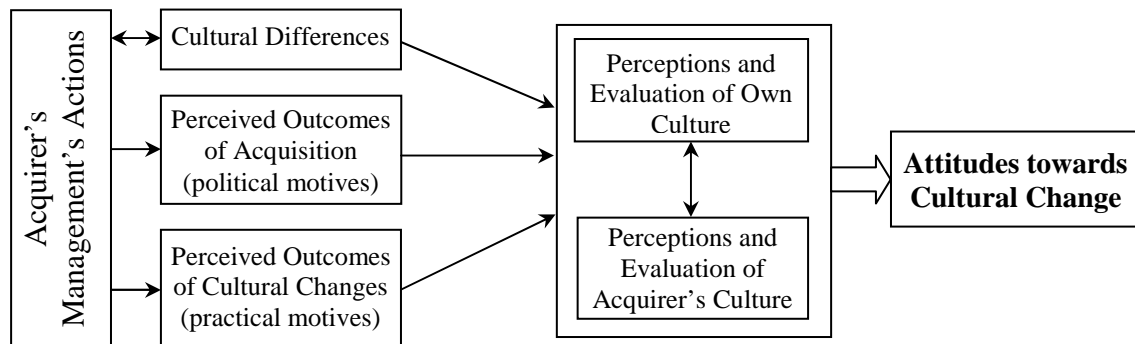


Table I. Research cases

	CASE 1 (FOCAL)	CASE 2	CASE 3
Target	Uni-Tech – a young UK software engineering company	A UK consumer products designer and distributor with over 100-year history	An established UK retailer
Size of target	31 members	39 members in headquarters – the research location	12 members
Acquirer	Standfest – a German software and electronics engineering company	An Italian non-durable consumer products manufacturer	A Republic of Ireland chain retailer
Size of acquirer	Large international company	Medium international company, acquirer's parent – large banking group	Large international company
Target's pre-acquisition performance	Nearly bankrupt	Nearly bankrupt	Consistently profitable
Nature of acquisition	Horizontal	Horizontal and vertical	Horizontal
First interview contact	7 months after acquisition	7 months after acquisition	10 months after acquisition
Number of respondents	6 employees and managers	12 employees and managers	8 employees and managers
Number of interviews	18 (over three rounds)	24 (over two rounds)	23 (over three rounds, with one participant exiting research in last round)

Table II. Research participants in focal case

	RESPONDENTS	ROLE	LEVEL	YEARS WITH UNI-TECH
1	Facilities Manager	Secretarial	Lower	4
2	Director of Engineering	Engineering/Management/ Customer Relations	Top	9
3	Senior Engineer	Engineering/ Customer Relations	Upper Middle	7
4	Team Leader	Engineering	Lower Middle	4.5
5	Engineer	Engineering	Lower	2.5
6	Process Manager	Commercial	Upper Middle	6

Table III. Justifications of Cultural Evaluations

JUSTIFICATIONS	OVERALL JUSTIFICATION OCCURRENCE	JUSTIFICATION USE (instances per person*)			
		INTERVIEW ROUND	Case 1 (focal)	Case 2	Case 3
Practical Outcomes of Cultural Changes	46%	R I	5.2	4.7	5.5
		R II	6.5	6.5	6.9
		R III	6.5	–	6.1
Status Issues	12%	R I	1.8	2.4	0.6
		R II	2.2	0.9	1.6
		R III	0.8	–	1.6
Acquirer's Fairness	12%	R I	1.3	1.7	1.0
		R II	1.8	2.0	1.1
		R III	1.3	–	1.7
Social Controls	5%	R I	0.5	2.0	0.3
		R II	0.2	1.4	0
		R III	1.2	–	0.1
Continuity of Own Culture	3%	R I	0.8	0	0.1
		R II	0.7	0.1	0
		R III	1.2	–	0.1
Acquirer's Competence	2%	R I	0.2	0	0.1
		R II	1.2	0	0
		R III	0.5	–	0.3
Unexplained	20%	R I	5.3	3.5	3.0
		R II	2.3	2.7	1.9
		R III	0.8	–	1.3

*Case 1 – 6 respondents, Case 2 – 12 respondents, Case 3 – 8 respondents, 7 in Round III

Figure 2. Managing acquired company's member's attitudes towards cultural change

