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## The link between cultural due diligence and socio-cultural post-merger integration management as a critical success factor in M&As

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Hochschule für  
Wirtschaft und Recht Berlin  
Berlin School of Economics and Law

RESEARCH PAPER

**The Link Between Cultural Due Diligence and Socio-Cultural Post-Merger Integration Management as a Critical Success Factor in M&As**

**Christoph Dörrenbächer  
Natalie Witzmann**

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## **Abstract:**

With the unchanging high failure rate of M&As, recent research is putting an increasing emphasis on Cultural Due Diligence (CDD) and socio-cultural Post-Merger Integration (PMI) Management. Nevertheless, the state of the art on CDD is still rare, leading to the fact that its actual value for a successful PMI remains unclear. Addressing this gap is the basic objective of this paper. In more detail the paper tries to clarify whether CDD is a necessary prerequisite for a successful PMI. The paper finds that the CDD process creates considerable value for the subsequent PMI as it facilitates a fast and smooth cultural integration and as such accelerates the operative integration of M&As.

## **Zusammenfassung**

Die andauernd hohe Misserfolgsrate bei M&A hat zu einer intensiven wissenschaftlichen Beschäftigung mit Cultural Due Diligence (CDD) und sozio-kulturellem Post-Merger Integrationsmanagement geführt. Unklar ist jedoch inwieweit CDD zu einer gelungenen Post-merger Integration beiträgt. Am Beispiel einer Fallstudie zeigt der hier vorliegende Aufsatz, dass CDD eine wichtig Voraussetzung für eine gelungene Post-merger Integration ist, da er eine schnelle und reibungsarme kulturelle Integration ermöglicht und damit auch die operative Integration beschleunigt.

## Table of Contents

Introduction	5
1 Literature Review:	5
1.1 Cultural Due Diligence	6
1.2 Socio-cultural Post Merger Integration Management	7
1.3 The Link Between Cultural Due Diligence and Socio-Cultural Post Merger Integration Management	8
2 Concept Methodology	9
3 The Case Study: Cultural Integration at the HP-Compaq Merger	10
3.1 The Clean Room	11
3.2 Cultural Integration Team	12
3.3 The Fast-Start Programme	14
4 Analysis and Discussion	15
4.1 HP's Cultural Integration Strategy	15
4.2 The Link Between CDD and PMI	15
5 Conclusions	17
References	18
Tables and Figures	21

## Introduction

Mergers and acquisitions (M&As) are today's main vehicle for corporate growth. This is the case even though 66-75% of M&As fail to create any shareholder value (McKinsey, 2010: 1). Some studies even stress that 40% of M&As among large firms end in what is called a 'total failure', in which the acquiring companies are far from recovering their capital investments (Carleton and Lineberry, 2004: 9). The high failure rate and the immense costs related to the failure of M&As are of a growing concern not only for shareholders but also for stakeholders such as employees, suppliers and community residents. Hence, there is a rising interest in finding the reasons for the numerous failures. While traditional research has attempted to explain M&A success and failure by focusing on strategic and financial factors, a growing number of studies focus on cultural aspects. Here research suggests that corporate and national cultures of the involved firms should be adequately identified during due diligence and integrated in the post-M&A phase (Stahl, Chua and Pablo, 2012). However, in reality, cultural fit between the acquiring and the target firm seems to be one of the most neglected areas of analysis prior to the closing of a deal (Chakravorty, 2012). Robert Carleton, CEO of Vector Group, stated that "Cultural Due Diligence will rarely be a critical factor in whether to 'do the deal' or not, but rather a significant factor in making the deal work" (2007, cited in Garbade, 2009: 14). Likewise, many researchers argue that the right Post-Merger Integration (PMI) management is the decisive factor in M&A success (e.g. Pablo, 1994; Birkinshaw, et al., 2000).

This all amounts to the question as to when and by what means cultural issues should be addressed in the M&A process, a complex procedure that encompasses pre-deal planning, deal completion as well as post deal integration and the creation of value (KPMG, 2002). As indicated above, there is abundant literature on the successful post-M&A integration management, basically arguing that culture should be integrated carefully. Much less research has been done on Cultural Due Diligence (CDD) with research on the interrelation of CDD and PMI Management being completely in its infancy. To address this gap, this paper will look at the entire process of cultural integration, from pre-deal planning to post-deal implementation, putting a particular emphasis on the interrelationship between CDD and PMI. Thereby the paper aims to clarify to what extent CDD is a prerequisite for a successful PMI process.

The paper starts with a short review of the literature on CDD and PMI. Then a conceptual model on the interrelation of CDD and PMI is developed and applied to a single-case i.e. the merger between Hewlett-Packard and Compaq, both from the US. Hence the term 'culture' in this paper exclusively refers to corporate culture not to cross-national culture. Following an analysis and discussion section, the paper closes with some recommendations for further research.

## 1 Literature Review

There is a far reaching consensus in the literature, that bringing together two different organisational cultures in a merger or acquisition is a great challenge. Following Schein (2003), incompatible cultures in M&As do not pose any less risk of failure than incompatibilities of the firms' finances, products or markets. In line with that, Cartwright and Cooper (1993) identify cultural incompatibility as one of the primary reasons for the immense failure rate of M&As. Cultural incompatibility typically unfolds in the socio-cultural integration process, an interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities" (Haspeslagh and Jemison, 1991: 106). Within this process different levels of acculturation can be achieved: assimilation, integration, deculturation and separation (Nahavandi and Malekzadeh, 1988). Another well-known taxonomy by Haspeslagh and Jemison (1991: 138-154) differentiates between absorption (acquired firm adjusts itself to acquirer's culture), preservation (acquired organisation retains its cultural autonomy), symbiosis (best practices of both firms are combined leading to cultural integration) and holding (firm does not seek for any integration nor value creation).

What puzzles, however, given this and similar accounts (e.g. Carleton and Lineberry, 2004), is the fact that little research has been done to look at culture in the pre-merger phase, i.e. the due diligence process. This is even more striking as a more forceful recognition of cultural aspects in the pre-

deal phase is considered as a prerequisite for a successful post-merger integration phase. “A culture audit of a potential or recently acquired organisation is a valuable source of information, with implications not only for partner selection but also for long-term management” (Cartwright and Cooper, 1993: 68).

## 1.1 Cultural Due Diligence

As due diligence in general, CDD, aims at the particular investigation of the culture of the other party in an M&A in order “to gather information that will assist in decision making and risk analysis” (Carleton and Lineberry, 2004: 51). Table 1 gives a few definitions from the literature.

<i>Author</i>	<i>Definition</i>
Marks, M. L. (1999: 14)	“Culture due diligence helps buyers spot likely people problems at a target and determine whether potential clashes might sink the deal.”
Galpin, T. J. and Hern- don, M. (2007: 47)	“The primary value of cultural due diligence is that it raises sensitivity to and awareness of issues that should be proactively managed during integration.”
Carleton, J. R. and Line- berry, C. S. (2004: 54)	“Cultural Due Diligence is a systemic and research-based methodology for significantly increasing the odds of success of mergers, acquisitions, and alliances.”

Table 1: *Definition of the term ‘Cultural Due Diligence’ (authors’ own compilation)*

Three basic insights emanate from these definitions: Firstly, CDD is more than just a simple culture analysis but rather an instrument for a thorough examination and evaluation of the corporate cultures of partners engaged in a merger or acquisition. Secondly, CDD serves as an early identification of potential cultural risks (Blöcher, 2004), which should decisively influence the PMI strategy (Carleton and Lineberry, 2004) or foreclose the deal in case of irreconcilable cultural differences and barriers (Schneck, 2007). Thirdly, for these reasons CDD should by no means play a subordinate role in comparison to the traditional due diligence areas (Schneck, 2007).

Carleton and Lineberry (2004: 69) emphasise that “as any sound organisational research, a CDD process [should] employ both qualitative and quantitative data collection”. They distinguish between ‘off-the-shelf’ and ‘customised’ CDD processes. ‘Off-the-shelf’ assessment models are generally based on quantitative data only. They do not differentiate between value-based and non-value-based differences, lack attention to detail and hence assume a “one size fits all” (2004: 56). ‘Customised’ CDD processes, on the other hand, are seen as to combine a qualitative research design including interviews, focus groups and workplace observations with a customised quantitative survey (Carleton and Lineberry, 2004).

Even though the design of a CDD is, as Blöcher (2004) maintains, little standardised (but determined by the specific needs of the involved companies), Carleton and Lineberry (2004) and also Schneck (2007) provide a reasonably simplified CDD process model that draws on qualitative and quantitative data (see Figure 1).



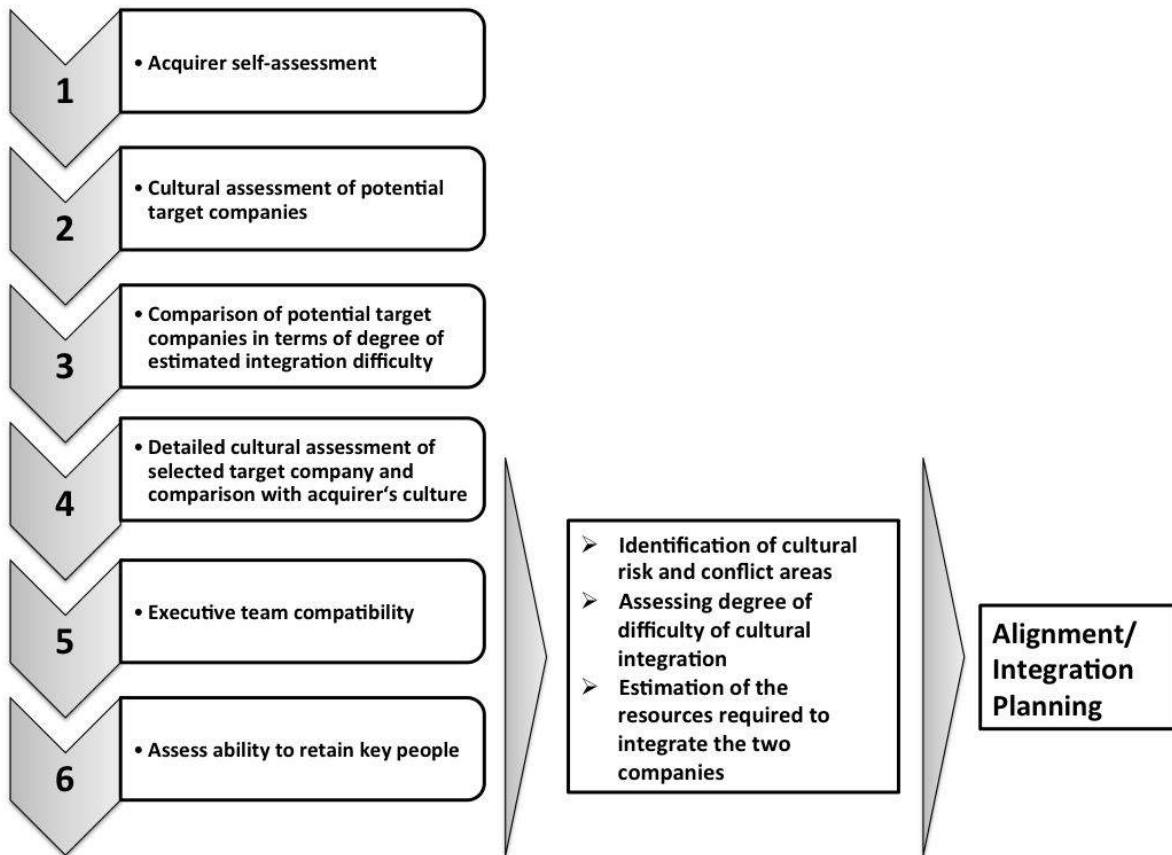


Figure 1: CDD Process Model (based on Carleton and Lineberry (2004: 49-81) and Schneck (2007))

The first step in a CDD process is an acquirer self-assessment (1). This is to detect prevailing problems within the acquiring firm and to provide a solid basis for a comparison with the cultures of potential target firms (2-3). If a potential target is selected, a high-level CDD assessment of the target firm is undertaken (4). Given the access problems in the pre-deal phase, a high-level CDD assessment remains rather an *estimate* than scientific mapping of the target culture. What follows is the assessment of the executive team compatibility (5) and of the ability to retain key people (6). In the 'post-letter of intent/acceptance' phase, steps (3) to (6) are typically repeated in order to prepare a detailed cultural profile of the target organisation and to identify potential cultural risks and conflict areas (Zimmer, 2001). Risks and conflict areas, in turn, indicate the cultural difficulties the socio-cultural PMI process is heading.

## 1.2 Socio-Cultural Post Merger Integration Management

A large number of theoretical and empirical studies stress the importance an effective socio-cultural PMI has for the success of M&As (Cartwright and Cooper, 1993; Pablo, 1994; Quah and Young, 2005). Building on the distinction between task and human integration, Birkinshaw et al. (2000) argue that the higher the level of human integration in the early stages of the PMI, the easier and more effective the integration of tasks later on. Zooming in on this finding, Stahl and Voigt (2008) argue that the impact cultural differences have on the integration process, especially on human integration, should be thoroughly analysed and used in order to successfully realize M&A synergies. Despite some slight differences in definition, the authors mentioned agree that the lower the level of cultural integration, the higher the likelihood of post-M&A problems due to an insufficient or slow-paced task integration.

The difficulty to integrate different corporate cultures after deal is often attributed to a strong resistance to change that organisations face in general and in particular in such instances such as M&As. Kotter and Schlesinger (2008) identify four most common reasons for resistance to change based on their analysis of numerous successful and unsuccessful organisational changes. 'Parochial self-interest' results from the fear of people affected by the change to lose something of value for them. Another

extremely important reason for resistance to change is 'misunderstanding and lack of trust'. In this case, employees do not comprehend the impact of the change and think the change might cost them more than they could benefit from it. People might also resist to change when they 'assess the situation differently' than their supervisors and perceive the costs involved as higher than the benefits, not only for them but the entire organisation. The fourth reason 'low tolerance for change' emerges when people fear not to meet new expectations in terms of skills and behaviour imposed by the change.

Given the overarching importance of overcoming such resistance to change, the last three decades have seen a growing body of research on key factors that positively influence post-merger human integration. It is the following interdependent factors that according to the majority of authors need particular attention.

*Speed of Integration:* The optimal speed of PMI is a fairly debated issue in literature. Some researchers argue that firms should take time in fully implementing the changes and gradually prepare the employees for the change while other authors claim that right after the M&A announcement people are still open for change. There is often talk of the 'first 100 days' as a time frame critical for the post-deal success (Angwin, 2004). Feldmann and Spratt (1999: 2) argue that "if your transition is not progressing along a hundred-day critical path, you are behind the power curve". Relating this statement to a human integration perspective, faster integration takes advantage of the employees' initial enthusiasm and reduces the timeframe for employees to experience uncertainty feelings that mostly result from rumours going around the firm, which in turn exponentially increase with time if not actively sorted out (Angwin, 2004).

*Trust:* As Kotter and Schlesinger (2008) point out, one source causing resistance to change is a lack of trust between the acquiring firm and the employees, as the latter do not understand the consequences of the change and might perceive the change as harmful for themselves. The term trust is defined as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another" (Rousseau et al., 1998: 395). Since the situation following the merger or acquisition announcement is highly unpredictable, especially for employees, people feel vulnerable and therefore initially tend to distrust the new organisational form (Stahl et al., 2012). The dynamic nature of trust, however, allows the acquirer to proactively further target employees' trust through communicating shared norms, knowledge and goals among all employees (Bijlsma-Frankema, 2001).

*Communication:* According to Kotter and Schlesinger (2008), one of best ways to deal with resistance to change is 'education and communication', meaning that the people affected by the change should be educated about it beforehand and the impacts of the change should be clearly communicated. Also Haspeslagh and Jemison (1991: 180) suggest to "alleviate concerns by carefully communicating and confirming what will not change to the managers and employees of the acquired firm" before combining the two firms. Bastien's (1987) study of behaviour and communication during M&As found that extensive formal and informal communication was crucial in order to reduce employees' uncertainty feelings that involve sudden switches from very positive to very negative future scenarios. In periods in which no or poor efforts for communication were made, uncertainty feelings among employees immediately grew, productivity decreased and employee turnover increased. Bastien (1987) concludes that the acquiring firm needs to understand their own and the target firm's corporate cultures so that differing norms and practices do not evolve as sources of conflict and rejection.

*Retaining Key People:* During a merger or acquisition the internal and external environment of the involved firms inevitably becomes unstable and precarious, making key performers either lose their commitment to the firm or even change over to competitors. For headhunters and competitors M&As are one of the top occasions to draft top performers (Galpin and Herndon, 2007). Galpin and Herndon (2007: 127) put it in a nutshell: "Your best players will find a new team first". It does not seem surprising then that a study measuring top management turnover rates in M&As found out that for at least a decade following the acquisition, target firms lose 21% of their executives each year – more than double the turnover rate of non-merged firms (Krug and Shill, 2008: 17). Therefore, "organisations should

give the retention and ‘rerecruitment’ of top performers one of the highest priorities during a merger or acquisition” (Galpin and Herndon, 2007: 128). The term ‘rerecruitment’ implies not only that key people should be given incentives to for staying in the firm but also that actions should be taken in keeping these key people motivated (Galpin and Herndon, 2007).

### 1.3 The Link Between Cultural Due Diligence and Socio-Cultural Post Merger Integration Management

While a few studies focus on pre-deal CDD (Blöcher, 2004; Zimmer, 2001; Schneck, 2007), most studies that show an interest in cultural integration issues exclusively look at PMI management (Pablo, 2004; Stahl and Voigt, 2008; Quah and Young, 2005; Birkinshaw et al., 2000), essentially following Haspeslagh and Jemison’s statement that “all value creation takes place after the acquisition” (1991: 132). Thereby these latter studies more or less all neglect that value creation might start long before the merger or acquisition contract is signed. There are a few exceptions such as for instance Kotter and Schlesinger’s (2008) proposition that communication should start prior to the deal in order to prepare the people for the change. However, these studies ignore that this already requires a solid understanding of the prevailing corporate cultures both at the target and the acquirer, which can only be attained through an in-depth cultural analysis before any attempt is made to combine the two organisations. Summing up, it turns out that overall the link between pre-deal CDD and PMI management has remained largely ignored by research so far. Hence, it is the aim of this paper to address this gap by examining in-depth the value a CDD has for socio-cultural PMI management.

## 2 Concept and Methodology

The conceptual model this paper draws on is shown in Figure 2. It posits that there is a strong interrelation of CDD and PMI. There are two basic propositions of the model: First, pre-deal CDD is able to identify restraining forces that potentially burden the socio-cultural PMI integration process. Second, these insights allow for an enhanced fulfilment of key success factors in the socio-cultural PMI process.

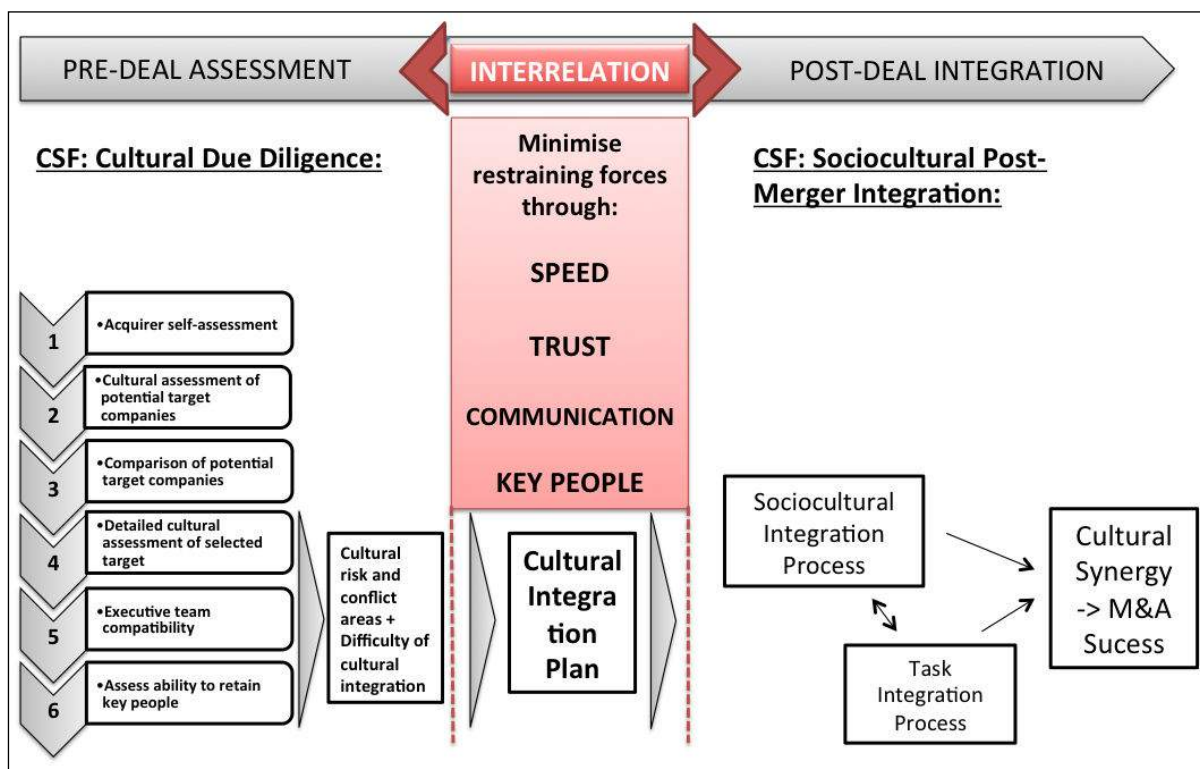


Figure 2: Conceptual Model (authors’ own compilation)

Given the rather piecemeal research on the subject and the need for basic theory building, this paper follows an explorative approach that aims to better elucidate and understand the interrelation between CDD and PMI by studying in-depth one case, i.e. the Hewlett-Packard-Compaq merger of 2002 (Dyer and Wilkins 1991; Yin 2009). Hence, the different CDD activities of the case merger in the pre-deal phase will be examined and their value for the post-merger phase will be analysed. The merger of Hewlett-Packard (HP) and Compaq (CPQ) was chosen since HP revealed detailed information about its CDD activities in this merger, what is not common. Moreover, still today it is one of the biggest mergers in the computer industry, what led to a strong public attention allowing to build this paper on secondary sources from business journals, academic books, newspaper articles. In addition, relevant material from the homepages of HP and Compaq was studied.

Since there is no direct knowledge on what impact HP's CDD activities had on the rather successful socio-cultural PMI, the remainder of the paper is dedicated to study the integration management processes throughout the pre-deal and post-deal phase and to examine their interrelation in view of the conceptual model. In other words, we will study whether the CDD facilitated an enhanced fulfilment of key success factors of the PMI such as speed, trust, communication and the retention of key people.

### **3 The Case Study: Cultural Integration at the HP-Compaq Merger**

The HP-Compaq deal is known as the biggest IT merger in history (Smith, 2002) that involved 150,000 people in 160 countries (Business Week, 2001). Both companies were not in a favourable market position and there was no other way to be able to compete with major rivals such as IBM and Dell than this merger (Beer, 2002). Despite some strong opposition by one major shareholder (the son of HP's co-founder, Walter Hewlett), the merger was decided on in March 2002. The new HPQ (HP-Compaq) reached a combined revenue of \$87 billion, based on the numbers of the, at that time, last four quarters, this putting them in a head-to-head position with IBM for the title of the largest technology company (Business Week, 2001). HP and Compaq further expected to reach cost synergies of about \$2,5 billion by 2004 with the merger (Lohr and Gaither, 2001), among other things achieved through the layoff of 15,000 employees (Kinsman, 2002).

Looking back at the HP-Compaq merger ten years later, Carly Fiorina, former CEO of HPQ, regards the merger as definitely successful. In an interview with Bloomberg TV (2011) she said: "If you look at the numbers there is no question [that this merger was the right move]. We went from a lagging PC business to the leader in the world in terms of revenue, market share and profitability. [...] And we improved the growth rate and the profitability of our already-leading printing business. So yes, it was a huge success" (Chang and Johnson, 2011). This assessment holds true today. Even though the company was struggling in recent years, HPQ hold the first place in terms of market share for a long time, until it has been overtaken by Lenovo by the end of 2013 (Montlake, 2013). HPQ now holds the second highest market share (16,6%) in the highly competitive computer hardware business (Bloomberg, 2015). Referring back to McKinsey's figures revealing that 66-75% of M&As fail to achieve the anticipated synergies (McKinsey, 2010: 1), it seems that HP and Compaq managing the largest technology merger in history, have done a good job in merging and integrating their two large technology companies with strongly established and differing corporate cultures.

Figure 3 provides a timeline of the merger and the main cultural integration activities that first took place in what has been labelled the clean rooms, then in the cultural integration team and finally in the so-called fast-start programme.

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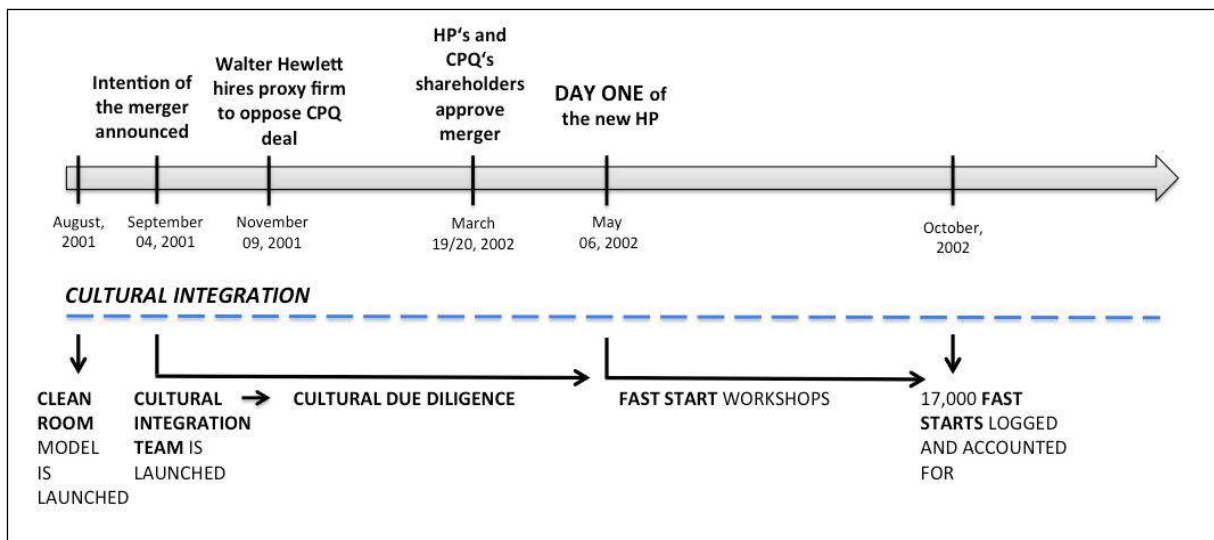


Figure 3: HP-Compaq Merger Timeline (authors' own compilation)

### 3.1 The Clean Room

In August 2001, already one month before the intention of the merger was announced, the companies' CEOs Carly Fiorina (HP) and Michael Capellas (Compaq) decided on selecting a senior executive from their respective companies to be in charge of the integration effort (Burgelman and Meza, 2004). Fiorina chose executive vice president Webb McKinney, while Capellas assigned Jeff Clarke, Compaq's chief financial officer, for the job (Burgelman and McKinney, 2006). Together, McKinney and Clarke headed the 'Clean Room' – a metaphorical clean room where 'Clean Teams' were able to exclusively concentrate on the merger integration apart from the day-to-day distraction of the still operating and competing companies (Burgelman and Meza, 2004). The term 'Clean Room' originates from the health and computer chip industry, where work is done in separate clear environments in order to avoid contamination, with contamination in the M&A context meaning the flow of confidential information merging companies are not allowed to exchange due to competition matters (Koob, 2006). Hence, 'Clean Room' members were only permitted to ask their non-Clean Room colleagues for information but they were forbidden to discuss any integration matters with them (Allen, 2012).

The 'Clean Room' Model' enabled the merging companies to work on integration plans even so the deal was still ahead (Koob, 2006). With an initially small, dedicated 30-person (Burgelman and Meza, 2004) team of project managers, OD experts, consultants and analysts, Clarke and McKinney started off with the integration work (Allen, 2012). During the following six months, the 'Clean Team' ultimately grew to about 2,500 people (Allen, 2012), who all halted working for daily business operations but were instead solely responsible for the immense integration workload (Burgelman and Meza, 2004). The major key objective of the 'Clean Teams' work was to enable the merged company to "open its doors and hit the ground running day one" (Allen, 2012: 51). By March 2002, the 'Clean Team' had already worked an estimated 1.3 million hours on creating a road map for how to mesh the two long-term competitors to one single firm (Lohr, 2002).

Within the 'Clean Room' environment, small individual Post Merger Integration teams (PMI teams) were formed according to a 'Noah's Ark' model – a buddy system that should avoid a potential us-versus-them mentality (Burgelman and Meza, 2004). Its underlying idea was to match each HP manager with a Compaq counterpart, with these pairs working under the central Post-Merger Integration Office (Central Programme Management Office, cPMO) as illustrated in Figure 4 (Allen, 2012). In order to discuss and review their integration plans and proceedings, the 'Clean Teams' met every week in person. Within the 'Clean Room' an 'Adopt-and-Go' approach was applied. This essentially meant to identify and select the best practice to be found among both firms throughout the merged company (Tam, 2002). This encompassed business models, processes, products, as well as cultural cornerstones such as corporate values and objectives. What has not been identified as best practice was to be eliminated (Harvey, 2002; Allen 2012; Burgelman and Meza, 2004). Technically the 'Adopt-

and-Go’ approach operated a traffic light system for the over 10,000 adopt-and-go decisions, that had to be made: finished or ahead of schedule projects were marked green, projects that were on track yellow, and those being behind schedule marked in red. This approach allowed the combined firms to move fast once the merger had clearance (Allen, 2012). Clarke argued that the ‘Adopt-and-go’ strategy later strongly prevented “politicking” among employees, as they were aware that the ‘Clean Room’ decisions were not up for discussion but only for execution (Burgelman and McKinney, 2006: 24). In order to supplement the ‘Adopt-and-Go’ approach, Susan D. Bowick, HP’s executive vice president of Human Resources and Workforce Development, introduced the ‘Launch-and-Learn’ approach, that legitimized fast decision making aiming at good but not necessarily perfect decisions (Burgelman and McKinney, 2006: 25). Finally, fast decision making was supported by the principle of ‘getting the dead moose on the table’ what meant to openly speak out differences among the teams in order to discuss and solve emerging conflicts before the integration of the merging firms take place (Burgelman and Meza, 2004; Burgelman and McKinney, 2006; Allen, 2012).

The ‘Clean Team’ was closely linked to the Steering Committee, which consisted of a small group of high rank senior executives (as illustrated in Figure 4) who made quick decisions and had the standing of imposing their execution (without running into lengthy discussions).

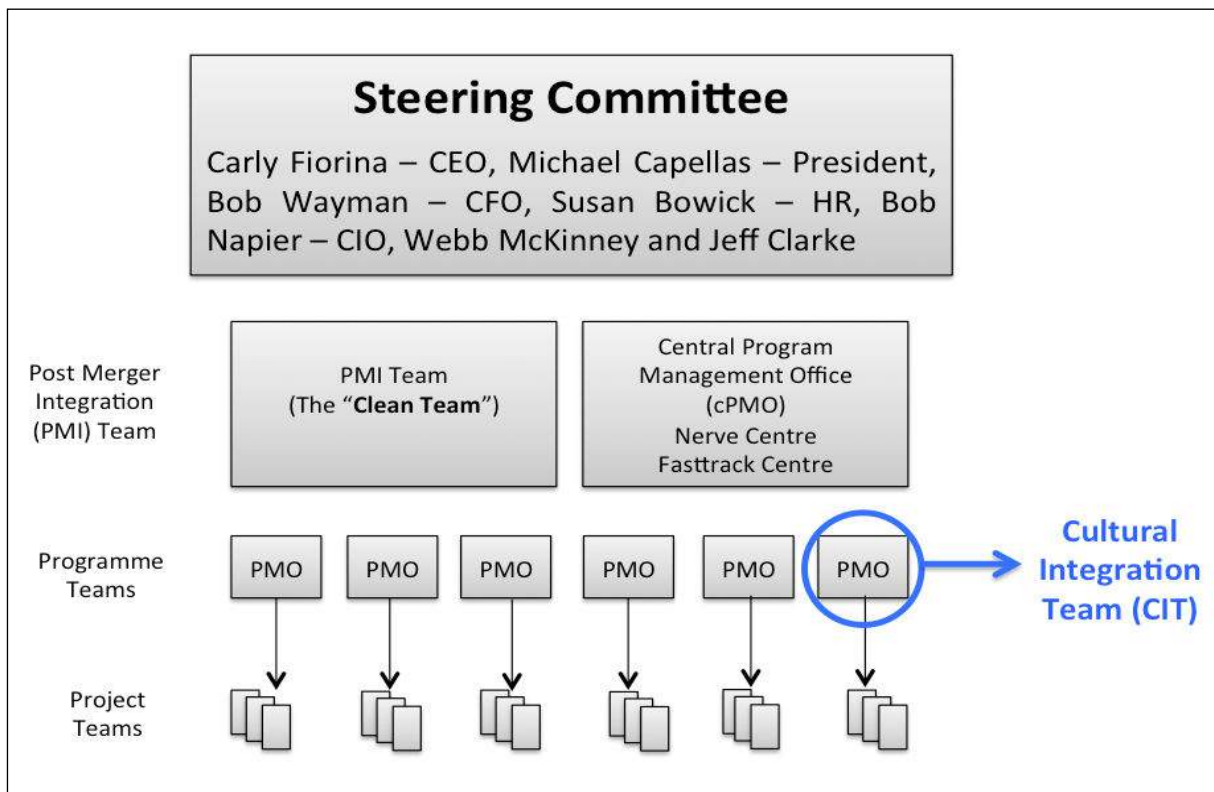


Figure 4: Merger Integration Team Organisation Chart Source (based on Burgelman and Meza (2004: 33))

### 3.2 Cultural Integration Team

Within the overall ‘Clean Team’ and as a sub-PMI team, the Cultural Integration Team (CIT) (as illustrated in Figure 4) was established in order to ensure an effective and fast cultural integration of the two companies (Burgelman and Meza, 2004; Allen, 2012). The CIT, consisting of both HP and Compaq employees and some external consultants from Mercer Delta, was introduced immediately after the merger announcement (Tam, 2002). So while the Clean Room itself was, in fact, developing a new corporate culture through jointly planning the ‘new HP way’, the CIT was launched in order to exclusively examine the cultural differences of the two firms. With its launch, the CIT started to conduct an extensive CDD throughout both companies (Allen, 2012). This CDD consisted of 127 individual executive interviews and 138 focus groups that in turn assembled 1500 managers and individual contributors in 22 countries (Stachowicz-Stanusch, 2009). A large-scale survey was rejected after considera-

tion as this might have confused employees and created uncertainty feelings among the personnel (Allen, 2012). In line with that, Elise Walton, then senior partner at Mercer Delta and consultant of the CIT, explained that “qualitative data was much more valuable [as] we were able to do a content analysis of all comments and the output was immediately useful” (Allen, 2012: 52).

The CDD assessment revealed many differences between the two strongly established corporate cultures. The major cultural differences derived from the CDD are summarized in table 2.

<i>Hewlett-Packard's Corporate Culture</i>	<i>Compaq's Corporate Culture</i>
<ul style="list-style-type: none"> <li>▪ Culture of consideration, thoughtfulness, and planning</li> <li>▪ More careful culture</li> <li>▪ Voicemail Culture</li> <li>▪ Bureaucratic managers</li> <li>▪ More internally focused</li> <li>▪ Rather systematic</li> <li>▪ Relies on organisation's rich history as a source of knowledge</li> <li>▪ Review of events so as to find best practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Culture of ready, shoot, and aim</li> <li>▪ Quicker to act due to less discussions</li> <li>▪ E-mail Culture</li> <li>▪ Impulsive managers</li> <li>▪ More externally focused</li> <li>▪ Rather spontaneous</li> <li>▪ Focuses on future possibilities and learn as they go</li> <li>▪ Trial and Error; forges ahead without looking back</li> </ul>

Table 2: *Differences in HP's and CPQ's Corporate Cultures* (based on DePamphilis (2010: 210-211), Burgelman and Meza (2004: 11), Tam (2002), and Stachowicz-Stanusch (2009: 71-72))

The CDD data was then included into ‘Clean Room’ decisions, especially concerning human resources, organisational design and structure, staffing of key positions, reward and compensation plans, as well as executive selection (Allen, 2012). Hence, by April 2002, HP announced the names of 150 senior managers who would be in charge of key positions in the new HP's four business lines and international corporate functions. In order to ensure a strong integration effort, both pre-merger HP and Compaq offered retention bonuses to about 8,200 key people, among which only 10% were in executive positions (Burgelman and Meza, 2004). These retention bonuses amounted to 50% of their salaries plus “target bonus” and were paid in two rates, one upon deal closure and the second after the first year (Fried, 2002).

For the design and launch of the new HPQ culture, the CIT implemented a so-called ‘*Living Systems*’ approach that preferred a communicative and participative form over a top-down method of change (Maturana and Varela, 1980). In line with that, questions such as ‘which values and objectives of the two companies should be preserved’ and ‘what should be created’ were asked in order to generate an evolutionary set of cultural cornerstones (Allen, 2012). Then the ‘Adopt-and-Go’ approach was applied so as to pick the best of what existed between the two corporate cultures (see Figure 5). Paul Brandling, long-standing HPQ employee, noted that the underlying bedrock values were teamwork, trust and respect, speed and agility. He further argued that given the two corporate cultures would accept those, “they will start to shape attitudes and behaviours which eventually flesh out into culture” (Boyd, 2002: 2).

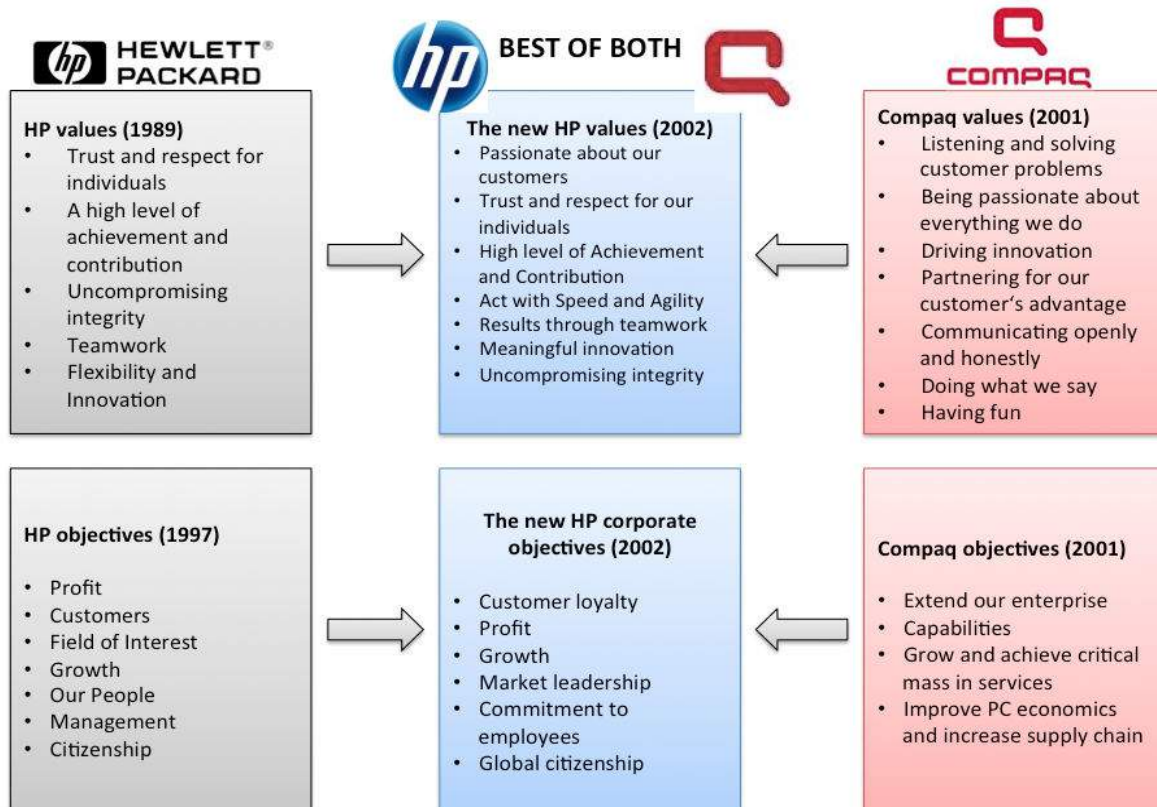


Figure 5: *The values and objectives of the new HP – Integrating the best of both cultures* (based on HP and Stachowicz-Stanusch (2009: 74).

Once the new cultural cornerstones were decided upon, the CIT then started to share them in interactive sessions with the various 'Clean Teams' (Marketing, HR, etc.) (Allen, 2012). These sessions included a *'Mirror Exchange'* exercise in which HP and former Compaq employees had to metaphorically describe one another as for instance through the use of sports analogies (Tam, 2002). Along with this exercise, the CIT created an employee website that featured a monthly 'culture-in-action' story, illustrating the pre-merger cultures while at the same time highlighting the preserved cultural values. The intent behind these activities was to early on foster employee engagement and to create a mutual cultural awareness and understanding among the workforces (Allen, 2012).

### 3.3 The Fast-Start Programme

The CIT also introduced a Fast-Start programme, an integration workshop programme that should accelerate the successful starting of the newly integrated teams. In April 2002, before the Fast-Start programme was initiated and before merger day one, HP held a two-day 'Leadership Readiness Summit' with 300 Compaq and HP leaders to interactively start-off the new approach (Tam, 2002). The leaders were supplied with all the needed material and knowledge to share within their respective offices (Allen, 2012). 'Fast-Start' consisted of 10 modules that newly assigned managers had to walk through in their team's kick-off meetings composed of HP and former Compaq employees (Stachowicz-Stanusch, 2009). These modules could be completed either in two consecutive full days or split into two-hour sessions over one or two weeks (Allen, 2012) and had to be completed within the teams' first 30 days (Stachowicz-Stanusch, 2009). The completion of the Fast-Start programme was mandatory for all levels of the firm and its results were tied to the new HPQ balanced scorecard and manager compensation (Tam, 2002). The major objectives of these Fast-Start sessions were to accelerate HPQ's cultural integration and to establish team cohesiveness that would drive execution and bring forth the newly combined corporate culture (Stachowicz-Stanusch, 2009). By October 2002, more than 17,000 Fast-Start sessions had taken place (Allen, 2012).



## 4 Analysis and Discussion

### 4.1 HP's Cultural Integration Strategy

According to the acculturation model by Nahavandi and Malekzadeh (1988), HP's and Compaq's acculturation mode can be identified as 'integration'. This implies that HP as well as Compaq cherished and desired to preserve their own culture while at the same time perceiving the other firm's corporate culture as very attractive. In the HPQ merger this degree of congruence regarding their acculturation preferences led to low acculturative stress and hence to a higher likelihood of achieving cultural synergy. The acculturation congruence in the HPQ merger was insofar given as both companies were willing to adopt some cultural values and objectives of the other firm as well as giving up some of theirs as required by the 'Adopt-and-Go' approach. Further, HP's extensive effort concerning its CDD activities and the associated integration mode is in line with Blöcher's (2004) empirical study that revealed that a CDD is typically applied by acquirers who strive for a high degree of integration.

Likewise, the type of cultural integration strategy adopted by HP and Compaq strongly matches with Haspeslagh's and Jemison's cultural integration model (1991). More specifically, the integration strategy can be identified as a 'symbiosis merger' in which the best practices of both are combined leading to cultural integration. A truly symbiotic merger can, according to Haspeslagh and Jemison (1991), only be achieved when both organisations adopt the original characteristics of the respective partner firm. The intention to achieve symbiosis is for instance recognisable in HP's 'Adopt-and-Go' approach and the 'Noah's Ark' Model, that both aim at choosing the best of both worlds. This implies to retain an optimal interaction between the merging organisations through an evolutionary change process. The key here is evolutionary instead of revolutionary change process. Following O'Toole, (1985, cited in Carleton and Lineberry, 2004: 19) "anthropology indicates that culture changes in one of two basic ways, revolution and evolution, and attempts at revolutionary culture change always fail; it is the shared experience and common history of a group over time that changes the culture". In line with this, HP's new cultural cornerstones have been designed according to an evolutionary set of cultural values and objectives, also influenced by its 'Adopt-and-Go' approach.

As already indicated, HP's remarkable effort into its CDD procedure shows a high aspiration for cultural integration. The various CDD activities within the 'Clean Room' laid the perfect foundation to ensure a timely cultural integration. While the operations of the 'Clean Teams' developed a new culture, particularly the CIT through exclusively examining the different cultural factors, created the necessary cultural awareness and understanding between the two corporate cultures.

### 4.2 The Link Between CDD and PMI

In order to examine the actual value of the CDD for the PMI in the HP-Compaq case, we will now analyse in detail to what extent the CDD facilitated an enhanced fulfilment of the PMI key success factors speed, trust, communication and retention of key people.

*Communication:* Following Kotter and Schlesinger (2008), communication is one of the best ways to deal with resistance to change. HP's early integration efforts and the 'Clean Room' itself were indicators for a timely communication between the merging companies. The launch of the 'Clean Room' and its 'Clean Teams' consisting of both Compaq and HP employees, allowed the firms to communicate already ten months before the deal. This sorted out the many feelings of uncertainty among the two workforces, that were due to the merger's public discussion following a fierce proxy battle launched by a major shareholder (the son of HP's co-founder Walter Hewlett). It was in particular the 'Clean Rooms' dialogic approach that largely avoided dangerous communication holes in that situation, which instantly lead to increased uncertainty feelings, employee turnover and a decreased productivity (Bastien, 1987). Remaining uncertainty feelings were tamed by introducing the principle of 'Getting the Dead Moose on the Table'. This principle turned implicit communication into a transparent two-way

communication that brought about trust and mutual understanding among the employees. The same effect was provoked by the CIT's 'Mirror Exchange' exercise. Through an informal and reflective communication exercise, crucial insights for the operations of the new HPQ teams in the post-merger phase could be gained. Finally, the Fast-Start programme clearly communicated the new cultural model that resulted from the 'Clean Room's' work to all levels of the newly combined workforce.

*Trust:* Another key success factor in the PMI that potentially decreases employees' resistance to change is 'trust' (Stahl, 2012). As just discussed, HP's integration effort displayed a high degree of communication that fought initial distrust resulting from the public debate about the merger. Moreover, the CR's 'Noah's Ark Model' contributed to the creation of trust between members of the integration teams within the 'Clean Room'. Also decisions taken by the 'Clean Teams' were trusted in the two organisations as they were co-decided by an own colleague. Finally, the 'Launch-and-Learn' approach created trust in that it foresaw that decisions that turn out to have too many negative effects might be changed again as a part of the learning process (Kotter and Schlesinger, 2008). Overall it turns out that trust among the partners was already generated in the pre-deal phase with considerable positive effects for an accelerated integration process in the PMI phase.

*Speed:* For the HP-Compaq merger, a merger within the extremely fast moving technology industry, the speed of integration was even more important (Burgelman and Meza, 2004). The 'Adopt-and-Go' approach substantially accelerated the decision making process of the various integration teams. This strategy stopped politicking and contentious debates and as such allowed for execution speed. Especially the 'Adopt-and-Go' traffic light system simplified the over 10,000 adopt-and-go decisions and was a critical success factor for achieving integration speed. Similarly, the 'Launch-and-Learn' approach encouraged the 'Clean Teams' to make decisions that were "fast and good enough" (Burgelman and McKinney, 2006: 25). Hence, employees did not waste time in trying to achieve perfect solutions. Moreover, the 'Clean Rooms' operating principle of 'Launching the Moose' reduced conflict and the time to solve such conflicts. Taken together, all these pre-deal integration activities contributed to "the fact that the new HP was ready to operate as one from the first day the merger took effect" (Burgelman and Meza, 2004: 20). Given HP's extensive pre-deal integration efforts and the Fast-Start Programme, HP was able to take full advantage of the famous first 100 days and the initial employee enthusiasm.

*Retention of Key People:* While HP was initially able to keep key people through retention bonuses and financial rewards, about two years after the launch of the merger many key executives who were involved in integration work had resigned or retired. Already six months after HPQ's merger launch, Michael Capellas, former CEO of Compaq and HPQ's COO, left the newly merged company without being replaced by another president (DiCarlo, 2002). Soon afterwards, in November 2003, Jeff Clark, leader of the CR and former CFO of Compaq, unexpectedly resigned from the new HPQ. His resignation occurred at about the same time as Susan Bowick's, EVP of HR, and Webb McKinney's early but, as analysts remark, genuine retirement announcements (Lohr, 2003a). After harsh criticism, HP's CEO Carly Fiorina, had been forced out by the company's board of directors (La Monica, 2005) in 2005. The reasons for these and other key people to leave were manifold. Some apparently got uninterested in the integration work, with most of the work accomplished (Allen, 2012). Others seized the opportunity to accept more attractive job offers at other companies (Lohr, 2003b). Unsurprisingly, the departure of key people steering the integration work led to a fading of the integration effort. Nevertheless, the cultural integration achieved by that time was already rather high.

Summing up: Even though the last key success factor mentioned (i.e. the retention of key people) was not enhanced through CDD, it still can be concluded that the CDD created a substantial value for the PMI. During the CDD restraining forces to the PMI could be identified and the enhanced attainment of key success factors such as communication, speed and trust significantly promoted the subsequent integration activities. As a result, the CDD can be seen as a prerequisite for a successful PMI, leading to cultural synergy and in turn increasing the potential success of the merger.

## 5 Conclusions

Given the large number of M&As and their persistently high failure rate (McKinsey, 2010) researchers and M&A experts devote strong efforts to find reasons for the high failure rate. Most of these studies, however, have neglected the fact that value creation in M&As is a dynamic process ranging from extensive pre-merger planning to a well-organised post-merger implementation of the cultural integration plan. In response to that, this paper has made an attempt to examine the interrelationship of the pre-deal CDD and the socio-cultural PMI through an in-depth literature review analysis and a case study. To the best of our knowledge this study is the first one to deal with this relationship. Therefore, it closes an important gap in the body of research on cultural aspects of mergers and acquisitions. At the same time it puts forward a variable to be tested in research on cultural aspects of post-merger integration problems (Weber et al., 2009; 2011). In addition, this work adds to the more general literature on the link between pre-acquisition and post-acquisition stages in M&As, a field of research that is considered to still be in its infancy (Gomes et al., 2013). Here, our proposition, that the CDD is a prerequisite for the socio-cultural PMI and hence for the successful creation of cultural synergy, could be confirmed, in that the case study showed that the attainment of almost all key success factors were enhanced through a pre-deal CDD.

Limitations of our study for one extend to the well-known problem of statistical generalisation of single case studies. Secondly, our findings are limited through the fact that the paper only draws on secondary data. Even though the size and the overall importance of the merger in the industry provided a solid amount of authentic, reliable and representative textual data that allowed for a triangulation of content, original data might have provided some further interesting explanations on issues barely or not at all reported. Lastly, the HP Compaq merger applies to a special situation in which the merging companies, sharing the same national location, planned to merge based on a pre-agreement of both boards and where the target company Compaq has not gone into an auction process. Only due to these preconditions, not being usually the case with mergers, the very early implementation of the 'Clean Room' could be enabled. In line with these limitations further research should build on the contribution of this paper and seek to confirm the positive relationship between cultural CDD and a successful PMI we found for a *larger* number of cases either applying a case comparison or survey approach. This would also allow examining the research question with a broader set of data sources including primary sources gained through participant observation or interviews.

Finally, next to some general recommendations that have also been mentioned by other studies (e.g. on maintaining leadership attention on cultural matters throughout the whole process) there are two important practical lessons that can be learned from our case study. Firstly, managers concerned with integration processes should be aware that cultural integration facilitates and accelerates the operational integration. Therefore, especially if the business environment is a fast changing one, integration speed is essential and cultural integration should by no means play a subordinate role. Secondly, managers should ensure a timely cultural integration through a clean room environment, foster employee engagement throughout the integration work and invest in a thorough CDD to prematurely reveal critical cultural gaps that could potentially lead to conflicts.

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## List of Tables and Figures

### Tables

Table 1: *Definition of the term 'Cultural Due Diligence'* (authors' own compilation)

Table 2: *Differences in HP's and CPQ's Corporate Cultures* (based on DePamphilis (2010: 210-211), Burgelman and Meza (2004: 11), Tam (2002), and Stachowicz-Stanusch (2009: 71-72))

### Figures

Figure 1: *CDD Process Model* (based on Carleton and Lineberry (2004: 49-81) and Schneck (2007))

Figure 2: *Conceptual Model* (authors' own compilation)

Figure 3: *HP-Compaq Merger Timeline* (authors' own compilation)

Figure 4: *Merger Integration Team Organisation Chart Source* (based on Burgelman and Meza (2004: 33))

Figure 5: *The values and objectives of the new HP – Integrating the best of both cultures* (based on HP and Stachowicz-Stanusch (2009: 74)).

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