

## **Cultural Integration after Acquisitions in the Companies of Pharmaceutical Sector**

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**Abstract:** *This article presents the research results of 5 acquisitions with the branch character which took place in the pharmaceutical sector. The aim of the research was to diagnose an approach to cultural issues and, consequently, the identification of the model adopted for the implementations of cultural integration. The analysis of the range of cultural differences, their depth and the dynamics of integration activities helped in it. The research showed that in the described companies in the pre-transaction phase no due-diligence analysis which would allow for the assessment of the compatibility of partners at the moment of the transaction in the field of culture was conducted. In three out of five examined transactions a pluralistic model was adopted assuming that the companies- partners of the transactions stick to their rules, norms and values. In the research it was underlined that a marginalization of the cultural aspects results from a conviction that an organizational culture in pharmaceutical companies is weak and additionally staff transfers within a branch cause the copying of the management practices and patterns of behavior. Additionally it was underlined that managers of integration with proper competencies are hardly ever employed. It increases the risk of integration and the consequences of an inapt integration of cultures can be even more serious than a lack of actions in this aspect.*

**Keywords:** *cultural integration, acquisitions, pharmaceutical sector*

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### **1. INTRODUCTION**

Mergers and acquisitions are a tool which enables to obtain the capital necessary for the implementation of the development strategy. In the times of the economy globalization the migration of capital is more and more common and the transactions of fusions and acquisitions have a more and more trans national character. Entering new markets requires such forms of intercultural integration which will take into consideration both a local specificity and will enable coherent activities of the different part of the organization. Therefore, while discussing mergers and acquisitions, the cultural issues analyzed on the organizational and national level<sup>1</sup> are really important. International mergers and acquisitions cause- as R. Larsson and M. Lubatkin underline- “a problem of organizational cultures set in the different national cultures” (2001: 157), whereas G. K. Stahl notes that cultural differences are often an obstacle to use fully the real possibilities of integration (2002:167). G. Hofstede emphasizes that taking a decision about a merger is caused almost always by the economic reasons while the success of such processes is prejudged by the cultural factors [2000: 76]<sup>2</sup>.

The economic cooperation, even in similar systems, requires a new, culturally integrated formula of operation (Hofstede, 2000:37). Cultural differences which accompany the processes of mergers and acquisitions cause a cultural dissonance defined by Cz. Sikorski as “a situation in which people realize the differences of own cultural reactions to the given issues” (2002: 35). The aim of this paper is to analyze the activities in the post transaction phase carried out in the field of culture

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<sup>1</sup> In the literature, there is a discussion which category of the culture differences influences the success of the integration process. G. Stahl and A. Voigt notice that the differences within organizational culture have more influence than in the field of national culture (Do cultural differences matter in mergers and acquisitions? Alternative model and examination.”*Organization Science*”, vol. 19 (1), 2008,p.160-176).

and as a consequence an identification of the model of cultural integration. This paper is the result of the research on the transactions of acquisitions conducted in the companies producing pharmaceuticals and on their aims.

## **2. DIRECTIONS OF RESEARCH ON CULTURAL ISSUES IN CASE OF ACQUISITIONS**

The research on the influence of the former experience of companies in mergers and acquisitions (mainly in the target countries) on the success of acquisition process is conducted. The research carried out by Levitta and March (1988:319-340) and a team of Collins, Holcomb, Certo, Hitt, and Lester (2009:1329-1334) follow this trend. A strategy based in the discussed area on an approach defined as divergent (situational), oriented on the diversity in the field of the applied methods of management in the cultural context or converging, taking for granted an existence of a universal, homogeneous model of management, functioning in every cultural environment are a starting point to shape an organizational culture after an acquisition. At this stage it would be necessary to ask a question: how far the cultural issues are really important when choosing a transaction partner? In the literature, the attention is often paid to the fact that a cultural adjustment of the transaction partner is a key success factor of M&A processes. G. Fink and N.J. Holden (2007:56-59) and M. Hurt, S. Hurt (2005: 123-130) pay attention to this aspect whereas S. Cartwright and C.L. Cooper underline that the cultural issues are from the point of view of M&A more important than the strategic ones. It is also possible to come across an opinion that the issues of the cultural adjustment of the transaction partners does not matter for the success. It is necessary to remember about a different approaches to the cultural issues in the acquiring and acquired company. For the acquired company an attractiveness of the transaction partner can be important. The attractiveness can be analyzed in a market dimension (a competitive position, a market share, markets which are served) and in a social one (human capital, intellectual capital, social capital). In the company which is carrying out an acquisition, the cultural issues become crucial but they must be treated in the strategic categories. A level of the cultural homogeneity within the whole organization is also vital. The cultural problems are particularly visible in horizontal mergers and acquisitions when the companies function on similar markets and have a similar technology. A necessity to standardize the procedures and standards results here in doubling the positions and as a consequence imposes a decision to reduce employment.

An integration means that the acquired company keeps its norms and values and introduces them into a new post-merger structure. With the time passing by, an evaluation will be forwarded towards a creation of one common culture. An assimilation means that one company resigns from its values and as a consequence adjusts to the culture of the acquiring company. The companies which have former negative experience deriving from the organizational and cultural issues behave like that. A deculturation derives from a critical approach both to own culture and to the partner's culture. As the effect, both of them are rejected. A separation describes a situation in which both two companies remain independent both in terms of an organization and culture and in the systemic approach. This form is often common in conglomerate mergers.

The integration process can be treated as building a coherent identity of a newly created organization (Stankiewicz-Mróz, 2012:177-187). This problem is particularly important in case of companies which got into capital groups. A. Zarebska states that an effective consolidation of identity requires a precise identification of the cultural levels in the companies which are subject to mergers and a definition how far they are different to plan the activities leading to an elimination of the cultural gap. These changes should refer to the deeper levels of the company's culture and do no limit only to artifacts (2009:89). It is not connected here only with a culture cohesion but with a wider approach to corporate identity (Leuthesser, Kohli, 1997:15-16).

## **3. METHODOLOGY AND RESEARCH RESULT**

The results presented within this paper are a result of wider research on the model of post transaction integration. The research was conducted in five companies chosen at random belonging to the category of the producers of pharmaceuticals in two stages: a basic one (in 2010) and a complementary one (in 2012). In each case the analyzed company had been taken over three years before the research. In the literature it is stated that such a time perspective is optimal from the point of view of assessing the effects of the conducted transaction. An inductive analysis of

case study type was used and the technique of research triangulation was applied. A part of the research used for the needs of this paper was conducted by means of two methods: individual in-depth interviews with the presidents/ managing directors of the companies which were taken over and panel interviews in which the presidents and managing directors as well as director and managers of the development units, managers of organization as well as the directors/ managers of HR units of the acquired companies participated. The structure of the examined transactions was as follows:

- A private national company of a middle size, acquired by a big international company by purchasing 100% of shares. The form after a merger- a concern. The country of the capital origin: the USA.
- A big company with Slovenian capital, acquired by a big international company. The transaction was done in 2009. Organizational form after a merger- a concern. The country of the capital origin: Switzerland.
- Employee-owned company of a middle size acquired by a small private company (Polish-Slovenian) by a purchase of 100% shares. The transaction was conducted in 2008. The organizational form after the merger: a homogeneous company. The countries of the capital origin: Slovenia/ Poland.
- A big international company overtaken by a global company. The year of the transaction: 2009. The organizational form after the merger: the concern. The origin of the capital: Middle East countries.
- Joint-Stock company wholly owned by the state acquired by a large national company (by purchasing 85% of shares). The year of transaction: 2010. Organizational form after a merger- a concern. The country of the capital origin: Poland.

The aim of the research was to diagnose a model of post transaction integration in the field of the organizational culture. M. Jaeger enumerates three leading situations describing the inter organizational interactions in the field of culture which influence three models of integration: (Jaeger, 2001: 83).

- **Pluralism.** Companies- transactions partners stick to their rules, norms and values and their mutual contacts are limited to a necessary minimum. Such a situation is possible only when there is a small strategic dependence.
- **A cultural collage.** A hybrid created as an effect of the combination of the best cultural elements of each of the transaction parties and a practical application of this mixture in practice. An attractiveness of the partner has a key importance for the described model as well as an implementation of the strategy of sharing the experience.
- **An acquisition of the culture of the transaction partner.** Such an approach to the integration is presented by the companies in which it was taken for granted that an acquisition of the partner’s practice and their quick “internalization” are a key to success.

The starting point was a diagnosis of the level of compliance of the partners’ cultural profile and the areas in which changes were made during the three years following the acquisition.

**Table 1.** A diagnosis of the compliance of the cultural profile of partners while starting a transaction and the changes after three years of functioning in a post-merger structure.

Analysed dimensions of culture		Number of transaction				
		I	II	III	IV	V
Character and range of control	Tight	C	LC	LC	LC	LC
	Flexible					
Standards of activities	Clients’ needs	C	C	LC	C	LC
	Procedures					Ch
Generating willingness to take risk	Low	C	LC	LC	LC	LC
	Moderate		Ch		Ch	Ch
	High					
Specialization	Narrow	LC	LC	C	C	C
	Wide					
Character of relations	Hierarchical	LC	LC	LC	LC	LC

	Partner		Ch		Ch	
Flexibility	Low	C	LC	LC	Ch	LC
	Moderate					
	High					
Character of work organization	Individual	C	LC	LC	LC	Ch
	Team work					
Character of communication	One- way	C	C	LC	C	LC
	Two- ways					
Range of freedom	Emphasis on rules and procedures	C	C	C	C	LC
	Autonomy					

*C*—compliance in the analysed dimension of the culture of the companies- transactionspartners

*LC*- Lack of compliance in the analysed dimension of the culture of the companies- transactionspartners

*Ch*- area of changes in the period of three years after a transaction of a merger.

**Source:** own resources

All the examined transactions had a branch character. In the acquired companies at the stage of due diligence test, no audit of organizational culture which would allow to diagnose “the cultural gap” and the evaluation of the compliance of the partners in the described area was conducted. In the research it was underlined that the differences in the field of organizational culture exert a small impact on the process of post-transaction integration. The attention was paid to the fact that the organizational culture in the pharmaceutical companies is relatively weak, which facilitates the integration. On the other hand this sector is quite hermetic with a visible phenomenon of “industrial carousel of positions” which results in “replicating the management practices” in other companies.

Hypothetically, it can be assumed that it could result in a functioning of a certain “core” of norms and values common for the whole analyzed sector and confirm that the organizational culture is similar. However, the discussed research showed that the level of the similarity of the organizational culture of the transaction partners is low or moderate. While trying to access the compliance in the proposed categories, the problems resulting from the differences within the very company emerged (table 1). In the pharmaceutical companies different professional groups coexist, with the different tasks, competencies, expectations and the systems of values.

The professional subcultures, in the approach of A. L. Wilkins result from the division of work and the different conditions in which the tasks are carried out (1983). J.A. Raelin underlines that their functioning is an effect of a professional differentiation. This refers particularly to high class specialists who have a clear need for autonomy and cannot tolerate procedures, rigors and limits (1986). That is why during the research a problem of the evaluation of the culture in the categories referring e.g. to a specialization emerged. Also in this aspect the heterogeneity of the organizational cultures was underlined. The different groups of employees create their own subcultures and there are few cultural patterns common for all the members of the organization. During the interviews, a “duality” of the organizational culture resulting from the parallel functioning of two groups of employees was underlined. Their existence is a projection of structural conditionings. In the companies under research the structure consists of two parts with different features. On one hand there is a stable part, with hierarchical relations within which a routinized work takes place (manufacturing area) and on the other hand a more flexible part, with a flattened organizational structure which takes place in the research area (R&D, information units). In the manufacturing part there are such features as: a regime of the standardization and an operation in line with the procedures, a specialist regime which influences a clear division of work, a formalization regime- a big number of procedures, regulations and documents, a regime of centralization- clearly defined and concentrated powers to take decisions. The R&D part is characterized by the following elements: a bigger flexibility, conducting innovative tasks, functioning in small project teams. In all the examined transactions in the post-transaction phase a concentration on hard factors was visible (accounting, finances, reporting).

During the interviews, the managers were underlining that the consequences of inept integration of cultures can be more severe than a lack of activities in this field. The cultural issues were neither ever analyzed on the due diligence level nor were an area of any activities which would

lead to an elimination of the “cultural gap”. One of the managers participating in the research stated “*I do not know any case in our branch where cultural differences influenced a decision to withdraw from the transaction. A potential partner is never analyzed from this perspective*”.

**Table2.** Models of cultural integration in the examined transactions

Nr of transaction	Due diligence analysis in the field of culture	Similarity of partners in a cultural dimension while starting a transaction	Range of integration activities in the field of organizational culture	Models of cultural integration
1	None	Moderate	None	Pluralism
2	None	Moderate	Small	Pluralism
3	None	Low	Small	Pluralism
4	None	Low	Moderate	Cultural collage
5	None	Low	Moderate	Cultural collage

**Source:** own resources

#### 4. CONCLUSION

In order to succeed in the acquisition transactions, the financial, legal and structural analysis are not sufficient. A lot of attention should be also paid to the analysis which refer to the issues of cultural adjustment of the transaction partners both in the national and organizational dimension. It is also necessary to introduce changes connected with a gradual inclusion of the new elements into the current culture in the skillful way. The research showed that in the discussed companies in the pre-transaction phase no due diligence analysis was carried in the field of culture which would allow to assess the level of partners’ compliance while starting the transaction. In three out of five examined companies a pluralistic model of integration was adopted assuming that the companies- partners of transactions will stick to their rules, norms and values. In the research it was underlined that marginalizing the cultural aspects results from a conviction that the organizational culture in the pharmaceutical companies is weak and that additionally the staff transfers within a branch result in duplicating the management practices and patterns of behavior. It will result in the future in a slow process of homogenization of cultural processes. It was also underlined that the integration managers with proper qualification are hardly ever employed. This increases a risk of integration and therefore the consequences of inept integration of cultures can be more severe than a lack of actions in this area.

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