THE EFFECT OF MERGERS AND ACQUISITIONS ON ORGANIZATIONAL CULTURE, CLIMATE AND FINANCIAL PERFORMANCE

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To My Family
DECLARATION

I, the undersigned, hereby certify that the work contained in this dissertation is my own work and all references used are accurately reported.

This report is confidential.

Signed:

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ABSTRACT

This research study was conducted at the administrative head office of a national pathology firm and its local laboratory division. The pathology firm is a subsidiary of the only integrated Black – empowerment healthcare company in South Africa. A merger was effected between the administrative division of this firm and that of a previously White – owned pathology firm while the laboratory division of the White – owned firm was acquired by that of the Black – empowerment pathology firm.

The objective of the research was to determine whether the merger acquisition had a negative impact on the culture, climate and human resource issues of the combined firms. However, since previous research has indicated that there is a correlation between organizational culture and financial performance, parameters relating to the latter have been included in the findings to indicate how the merger acquisition had affected this important aspect of organizational existence. It was hypothesized that the empowerment firm considered only growth factors (financial) as the rationale for the merger acquisition and that due consideration was not given to the negative effect it would have on the culture, climate, human resource issues and financial performance of the combined company.

The relevance and importance of the study, in the South African context, is based on two factors. Firstly, and usually for financial or economic reasons, mergers and acquisitions are on the increase. The consequence of this is the combination of organizations with (usually) vastly different cultures. Secondly, organizations in post – apartheid South Africa are increasingly employing a racially and culturally diverse workforce. Compared to many other countries, South Africa has persistently fared poorly in terms of its productivity. In order for the country to achieve economic growth, it is important for organizations to develop cultures that improve or enhance their performance and productivity. The study thus aimed to determine whether the merger acquisition adversely affected the organizational culture and thus also the performance and productivity of the combined firm.
The effect of mergers and acquisitions on organizational culture, climate, human resource issues and financial performance was discussed in terms of a theoretical framework. This included the definition of organizational culture and climate, the relationship between organizational culture and financial performance, the definition and history of mergers and acquisitions, the relationship between mergers and acquisitions and human resource issues, the management and integration of mergers and acquisitions and the management of mergers and acquisitions from a cultural perspective.

The cultures of the two organizations before and after the merger were defined in terms of fifteen dimensions and measured by means of a questionnaire. These dimensions had been identified as part of a previous study on the relationship between organizational culture and financial performance and were used to differentiate between organizations that perform well and those that do not. Primary data was also collected via the conduction of interviews.

The findings of the study indicate that there was a significant difference in culture, within and between, the combining organizations as a result of the merger or acquisition. In both cases employees indicated that the merged company had a weaker culture than their pre-merger company. This perception was stronger amongst employees from the empowerment organization. It was also found that the two organizations had significantly different cultures prior to the merger or acquisition and that the transaction also affected them to a different degree. With respect to financial performance, it was found that the combined company experienced a dramatic reduction in monthly turnover and realized a net monthly loss for the six months following the merger or acquisition.

**KEYWORDS: Organizational Culture, Financial Performance, Mergers and Acquisitions**
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1. INTRODUCTION

*Mergers, acquisitions and strategic alliances – a people issue*  
*(Cartwright and Cooper 1996:1)*

1.1 BACKGROUND TO THE RESEARCH STUDY

The research described in this report was undertaken at the administrative head office of Pathnet National, a national pathology network, and its local laboratory division, Pathnet Western Cape. Both entities are situated in the city of Cape Town, South Africa. Pathnet National was formed in 1997 and is South Africa’s first Black-owned and nationally represented pathology network. It is a subsidiary of Sekunjalo Healthcare, South Africa’s first integrated, Black-empowerment healthcare group.

On the 1st March 1999 the acquisition of the laboratory division of P.G. Davies and Associates, another locally-based pathology firm, was effected by Pathnet Western Cape. The administrative division of P.G. Davies and Associates and Pathnet National however, underwent a merger. This merged division is still known as Pathnet National (Pty) Ltd. and oversees the administrative functions of all the Pathnet laboratories throughout the country. It was the effect that the merger and acquisition had on the culture, climate and financial performance of both Pathnet Western Cape and Pathnet National, which was the subject of this study.

For reasons of simplification, Pathnet Western Cape and Pathnet National are mostly, and collectively, referred to as Pathnet throughout this report.

1.2 IMPORTANCE OF THE RESEARCH

As a result of South Africa’s history of racial discrimination and race-based opportunities that were skewed in favor of the White sector of the population, all private pathology laboratories in Apartheid South Africa were completely White-owned. No
Black pathologist (African, Indian or Coloured) held equity in any of these laboratories. Pathnet National was formed to address this imbalance and give previously disenfranchised pathologists a chance to get a foothold into the lucrative pathology market.

P. G. Davies and Associates was a completely White – owned pathology firm with mainly White employees at the top and middle level of the organization. It had undergone a merger \ acquisition with Pathnet, a Black – owned pathology firm. In view of the vastly different backgrounds, experiences and cultures of these different groups, both as individuals and as an organization, the study was undertaken to determine the impact of the merger \ acquisition on the culture, climate and financial performance of the combined organization.

It was hypothesized that Pathnet considered only growth factors (financial) as the rationale for the merger \ acquisition. Due consideration was not given to the negative effect it would have on the culture, climate, human resource issues and financial performance of the organization. Specifically, the research question that required answering was “Were differences in organizational culture, climate and human resources issues considered in the decision to effect the merger \ acquisition between Pathnet and P.G. Davies and Associates?” The objective of the research was thus to determine whether the merger \ acquisition had a negative impact on the culture, climate, human resources issues and financial performance of these firms.

1.3 STRUCTURE OF THE REPORT

This report is divided into the following sections after this introduction:
1. Literature Review: this section provides an overview of the academic literature on organizational culture, climate and financial performance, mergers and acquisitions, mergers and acquisitions and human resource issues and the management of mergers and acquisitions.
2. Research Methodology: a detailed account of the research approach and research
strategy is described in this section. Also included is a description of and discussion on the research problem, the research hypothesis, the sample selection, the collection of the primary data, the use of secondary data and the analysis and evaluation of the data.

3. Findings: The results of the research are presented in this section.

4. Discussion: the findings and their implications are evaluated in respect of the research hypothesis and research question.

5. Conclusion
2. LITERATURE REVIEW

2.1 INTRODUCTION

In order to determine the effects that a merger/acquisition has on the culture, climate and performance of an organization, it is important to understand the meaning of these concepts and to determine the findings of previous research studies relating to these themes.

Consequently, the relevant academic literature was reviewed. This included referencing books, journal articles and research reports written on the subjects of organizational culture, climate and financial performance, mergers and acquisitions, management of organizational culture, management of mergers and acquisitions and the effects of mergers and acquisitions on organizational culture, climate and performance.

2.2 DEFINITIONS OF ORGANIZATIONAL CULTURE AND CLIMATE

The American Heritage Dictionary defines “culture”, more formally, as “the totality of socially transmitted behavior patterns, arts, beliefs, institutions, and all other products of human work and thought characteristics of a community or population.” (Kotter and Heskett 1992:4). Cartwright and Cooper (1996) state that organizational culture is a well used, but perhaps less well understood concept. They argue that there are many definitions of organizational culture within the management literature and all tend to reflect the essence of the classic sociological/anthropological definition of the concept. This concerns the internalization of a set of values, feelings, attitudes and expectations, which provide meaning, order and stability to members’ lives and influence their behavior. A review of the literature has confirmed the assertion of Cartwright and Cooper that there are many definitions of organizational culture.

Kotter and Heskett (1992), state that they have found it helpful to think of organizational culture as having two levels, which differ in terms of their visibility and their resistance
to change. At the deeper and less visible level, culture refers to values that are shared by the people in a group. These values tend to persist over time even when group membership changes. At the more visible level, culture represents the behavior patterns or style of an organization that new employees are automatically encouraged to follow by their fellow employees.

Organizational culture according to Denison, refers to the underlying values, beliefs and principles that serve as a foundation for an organization’s management system as well as the set of management practices and behaviors that both exemplify and reinforce those basic principles (Denison, 1992:2 in van der Post 1997:23).

Hall (1995) says that to talk about culture more precisely, we must use two components. According to her, any definition of culture consists of these two parts or it is incomplete and causes confusion. The first dimension consists of the Ingredients component and is concerned with the way culture manifests itself. There are three main ingredients, which she calls the “ABC s”: A – Artifacts, B – Behaviors and C – Core values. Artifacts and etiquette (surface level) are the visible, concrete elements of culture and include language, types of greetings, clothing and the use of first names amongst others. Behaviors and actions (deeper level) are the way in which groups of individuals do the things they do. It includes their consistent pattern of behaviors and actions called a cultural style. Styles of decision making, styles of problem solving, style of negotiating and styles of responding to conflict all form part of the behaviors and actions cultural dimension. Core morals, beliefs and values (deepest level) shared by groups of individuals are the components of the third ingredient of culture. It includes what these groups regard as right and wrong, good or bad, fair or unfair, correct or incorrect.

The second dimension of Hall’s definition of culture is the Segments component. This dimension is concerned with the group of individuals involved. It answers the question, “Who are we talking about?” Or, “Who are the two groups that are interacting?” She says that segments of culture can include an entire nation (we speak of national cultures), a company (company culture), a region (regional cultures) and departments (departmental
cultures). Segments are also groups between which interactions take place e.g. between two companies.

Hall arranges the two components of culture in a framework. She states that this two-part framework allows us to get a firm grasp on the many meanings of culture. This framework is depicted in the following figure.

![Diagram](image)

**Figure 2.1** What is Culture? (Hall, 1995)

Cartwright and Cooper (1996:60) provide further examples of the many ways in which culture is defined in the literature. These are:

- ‘Culture is taken to be the shared attitudes, values, belief and customs of members of a social unit or organization’ (Martin 1985).
- ‘Organizational culture … shared meanings – patterns of belief, symbols, rituals and myths that evolve across time and that function as social glue’ (Smircich, 1985).
- ‘… fairly stable taken for granted (set of ) assumptions … meanings and values that form a kind of backdrop for action’ (Smircich, 1985).
- ‘A pattern of basic assumptions – invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to
new members as the correct way to perceive, think and feel in relation to those problems’ (Schein, 1985).

Perhaps the best description of the many ways that the various authors have defined organizational culture is provided by van der Post, de Cöning and Smit (1998:31). They state that organizational culture has been described as the dominant values espoused by an organization (Deal & Kennedy, 1982), that it constitutes the philosophy that guides an organization’s policy towards employees and customers (Pascale & Athos, 1981), that it is simply the way things are done in an organization (Bower, 1996), as the basic assumptions and beliefs that are shared by members of an organization (Schein, 1990), as the prevailing patterns of values, attitudes, beliefs, assumptions, expectations, activities, interactions, norms, sentiments in an organization (French & Bell, 1984), as the sum of behavior patterns that is built up over many years (White, 1991), as the set of values and assumptions that underlie the statement, ‘This is how we do things around here’ (Quinn, 1988), as the behavior patterns or style of an organization that new employees are automatically encouraged to follow (Kotter & Heskett, 1992), as the underlying values, beliefs and principles that serve as a foundation for an organization’s management system as well as the set of management practices and behaviors (Denison, 1990).

They go on to say that other authors define culture as the commonly held and relatively stable beliefs, attitudes and values that exist within an organization (Williams, Dobson & Walters, 1990), as patterns of beliefs, symbols, rituals, myths and practices that have evolved over time in every organization (Smircich, 1983), as what is typical of the organization, the habits, the prevailing attitudes, the grown - up pattern of accepted and expected behavior (Drenan, 1992), as the patterned way of thinking, feeling and reacting that exists in an organization or its subsectors (Tosi, Rizzo & Carrol, 1990), as a social force that controls patterns of organizational behavior by shaping members’ cognition and perceptions of meanings and realities, providing affective energy for mobilization, and identifying who belongs and who does not (Ott, 1989).

Van der Post et al (1998:31) conclude that, despite the many ways in which culture is defined, all these definitions have a central theme. This is that organizational culture
refers to a system of shared meaning, the prevailing background fabric of prescriptions and proscriptions for behavior, the system of beliefs and values and the technology and task of the organization, together with the accepted approaches to these.

Given the many descriptions of organizational culture, it is also important to know what organizational culture is not. Ogbonna and Harris (1998) clarify what organizational culture is not, and present a series of arguments to posit that organizational culture is not the same as organizational climate, power or politics and that it cannot be viewed as unitary. They explain the difference between culture and climate by referring to the distinction provided by Schneider and Rentsch viz. that ‘climate refers to the ways organizations operationalize the themes that pervade everyday behavior…….’what happens around here’’ whilst ‘culture refers to the history and norms and values that members believe underlie climate….‘why do things happen the way they do’. (Ogbonna et al., 1998:36). They go on to explain that whilst power is a facet of culture, it is by no means illustrative of the entire concept of culture and also that culture involves much more than a single value, assumption or attitude and that culture can therefore not be viewed in a uni-dimensional manner. They quote Pettigrew who theorized that ‘culture treated as a unitary concept…..lacks analytical bite, to support this point.

A further definition of organizational climate is provided in order to emphasize the difference between this concept and organizational culture. Organizational climate has also been defined as a relatively enduring quality of the internal environment of an organization that is experienced by its members, influences their behavior, and can be described in terms of the values of a particular set of characteristics or attributes of the organization (Tagiuri and Litwin, 1968:27 in van der Post 1997:24).

At this point the reader would have realized that culture has been described mainly from an organizational perspective, although the references to Hall’s (1995) work has been mainly to provide a general description and definition of culture. However, it should be mentioned that the literature (including Hall’s work) also draws a distinction between organizational culture and other types of cultures such as national culture. Fons
Trompenaars (1996:7) for example describes culture as presenting itself on different levels. The highest level is the culture of a national or regional society, the next level is the culture of an organization while the lowest level is the culture of people who share certain professional and ethical orientations (professional cultures). For the purposes of this report however, only organizational culture will be considered, as the objective of the research study was to determine how mergers and acquisitions affect this type of culture.

2.3 TYPES AND DIMENSIONS OF ORGANIZATIONAL CULTURE

It has been found that generally, research on organizational culture does not specify a set of uniform dimensions or characteristics. Rather, researchers in the field of organizational culture have applied a large number of dimensions of this kind of culture that cannot be neatly categorized in terms of an overall organizational culture theory. From the literature, 114 dimensions of organizational culture have been identified (van der Post et al., 1998:31).

Researchers who have sought to draw tangible distinctions and comparisons between organizations in terms of their culture have either favored a dimensional (Hofstede et al., 1990) or a type approach (Harrison, 1972) (Cartwright and Cooper, 1996:63). According to Harrison, there are four main types of organizational culture, these being power, role, task / achievement and person / support. The following extract describes these types of organizational culture.

**Power cultures**
The centralization of power is the most important feature of this type of culture. It is found in organizations where power rests with a single individual, usually the founder, or a small nucleus of key individuals. Power cultures are associated with inequitable reward systems, in that salary and other benefits are often awarded on the basis of personal preference in return for demonstrated
loyalty, perceived favors or long service as much as on ability. As the culture is essentially autocratic and suppressive of challenge, low morale and feelings of powerlessness amongst the workforce are frequent features.

Power cultures can be further differentiated in terms of the type and perceived legitimacy of the power exercised into *patriarchal* as opposed to purely *autocratic* power cultures. 

**Patriarchal power cultures:** here the nucleus of power rests with an individual or group of individuals who are perceived by the rest of the workforce to be its ‘champions’ or ‘protectors’. These cultures can be experienced as exercising a high degree of concern towards their employees, similar to that of parents towards their children.

**Autocratic cultures:** purely autocratic cultures are those in which power is justified as being legitimate by those who exercise it, as derived from their leadership status or position in the organization, rather than any links of ownership or personal involvement or self – sacrifice. Unlike patriarchal power cultures, those in authority are not considered to be genuinely interested in the continuing future of the organization *per se*, because they are likely soon to ‘move on’ to other opportunities. Such cultures are likely to be frequently experienced as more oppressive and dissatisfying than patriarchal cultures, because power is resented. Worker alienation, poor industrial relations and high staff turnover are common features. People remain within autocratic cultures because they consider themselves to be well paid, feel a strong sense of commitment towards their fellow workers or subordinates, or derive considerable intrinsic satisfaction from the actual job they do, rather than any great sense of commitment to the organization and its leaders (Cartwright and Cooper, 1996:65).

**Role cultures**

The role culture epitomizes the Weberian concept of a bureaucracy, as its guiding principles are logic, rationality and the achievement of maximum efficiency. The organization’s view of itself is a collection of roles to be undertaken rather than a collection of people \ personalities. In these cultures, things get done according to the corporate bible. Role requirements, boundaries of authority, and reporting arrangements are clearly defined. Power tends to be hierarchical and is derived from one’s role or position in the organization (Cartwright and Cooper, 1996:67).
**Task achievement cultures**
The salient feature of a task culture is the emphasis which it places on accomplishing the task, and the energy which it directs toward securing the necessary task-related resources and skills. A task culture is a team culture, in that commitment to the specific task bonds and energizes the individuals. Task cultures are characterized by their flexibility and high levels of worker autonomy, making them potentially creative and satisfying environments in which to work (Cartwright and Cooper, 1996:68).

**The person support culture**
The main characteristic of the person support culture is egalitarianism. In person support cultures, structure is minimal; the culture exists and functions solely to nurture the personal growth and development of its individual members. Information, influence and decision making are shared collectively. The organization is subordinate to the individual for its existence (Cartwright and Cooper, 1996:69).

In his doctoral thesis van der Post (1997) provides a number of references to show that, as mentioned previously, the various researchers have applied a large number of dimensions of organizational culture that cannot be neatly categorized in terms of an overall organizational culture theory. For example Gordons and Cummins identified eight measures of organizational culture, namely organizational clarity, decision-making, organizational integration, management style, performance orientation, organizational vitality, compensation and human resources development (Gordon and Cummins, 1979:29 in van der Post, 1997). A further example is that of Peters and Waterman who identified eight characteristics of excellent organizations, namely, a bias for action, closeness to the customer, autonomous and entrepreneurial leadership, productivity through people, strongly managed value systems, knowing their business, simple organization structures and decentralized authority (Peters and Waterman, 1982:13 – 15 in van der Post, 1997). Also, Robbins suggested ten dimensions along which culture could be measured, namely, individual initiative, risk tolerance, direction, integration, management support, control, identity, reward system, conflict tolerance and communication patterns (Robbins, 1990:439 in van der Post, 1997).
Finally, Bettinger identified twelve dimensions of organization culture, namely, attitude towards change, strategic organization focus on goals and objectives, performance standards and values that contribute towards success, rituals to support and reinforce values, concern for people, rewards and punishments that positively reinforce behavior, openness in communication and supervision, conflict resolution aimed at minimizing dysfunctional results, market and customer orientation, a sense of pride in the mission and objectives of the organization, commitment to the organization and teamwork (Bettinger, 1989: 38 – 42 in van der Post, 1997).

To synthesize all the dimensions identified, van der Post requested a panel consisting of seven human resources experts to compare all the dimensions with each other and to group them into logical categories. The result of this process was the emergence of fifteen dimensions of culture (van der Post, 1997:56). van der Post defined organizational culture in terms of these fifteen dimensions for the purpose of his doctoral thesis on the relationship between organizational culture and financial performance.

For the purpose of this research study, the same fifteen dimensions have been used to define organizational culture. A number of items pertaining to the dimensions were used in a Likert – scaled questionnaire to measure the changes in the organization’s (Pathnet) culture as a result of the merger / acquisition. Further discussion relating to this aspect of the research project is provided in the methodology section of this report. The fifteen dimensions may be labeled and described as follows (van der Post, 1997:57):

- **Conflict resolution.** The degree to which the organization is perceived to encourage employees to air conflicts and criticisms openly. Do subordinates perceive willingness by superiors to hear different opinions? Is there an emphasis on getting problems out in the open as opposed to smoothing them over or ignoring them?

- **Culture management.** The extent to which the organization is actively and deliberately engaged in shaping the organization’s culture. Are there expressive events, ceremonies or rituals that are designed specifically to reinforce, in a powerful and incontrovertible
way, the organization’s values and philosophies? Is there an understanding and belief in those core values and performance standards? Do employees understand and share a vision, which unites the energies of the organization’s membership?

- **Customer orientation.** The extent to which the organization takes the views of customers seriously and actively responds to such views. Do employees perceive that emphasis is placed by everyone in the organization on quality, service and reliability of products and services? Is there a willingness to listen to customers, to find out what they want and any ideas they may have for product improvement?

- **Disposition towards change.** The degree to which employees are encouraged to be creative and innovative and to constantly search for better ways of getting the job done. Are employees in all parts of the organization encouraged to experiment and to take practical risks? Are mistakes viewed as a natural occurrence in an innovative environment or are employees punished when their solutions to problems are imperfect? Is there a strong emphasis on experimentation or are employees expected to **follow the book** in dealing with business problems? Is there an emphasis on individual initiative?

- **Employee participation.** The extent to which employees perceive themselves as participating in the decision – making process of the organization. Are employees involved in making decisions, which directly influence their work? Do they participate in setting individual and group goals? Do they have a say in broader policy matters?

- **Goal clarity.** The degree to which the organization creates clear objectives and performance expectations. Are employees clearly informed as to the plans and objectives of the organization to understand their particular roles? Do they understand the mission, objectives and values of the organization to the extent that they are prompted to work together as teams and to care about the quantity and quality of the of the organization’s outputs.
- **Human resource orientation.** The extent to which the organization is perceived as having a high regard for its human resources. Does the organization view its employees as a valued resource and an important contributor to its success? Are rank and file employees seen as a key source of ideas for improvements in quality and productivity? Do employees perceive a commitment towards the development and training of the organization’s human resources? Do they experience systematic training and development interventions aimed at assisting them to develop to their full potential?

- **Identification with the organization.** The degree to which employees are encouraged to identify with the organization. Does the organization create opportunities for employees to socialize and to extend business friendships away from their work? Do employees experience an emotional involvement in their jobs and in the organization? Do employees share a high degree of commitment to make the organization’s strategic vision a reality?

- **Locus of authority.** The degree of responsibility, freedom and independence individual employees have. Is authority located mostly at the top of the organization or is it in the hands of people actually doing the work? Is the management of the organization centralized or decentralized? Are employees empowered to make appropriate decisions or do they have to refer these up the line? Do they have a perception of being able to manage and get on with the job or do they have to double – check all their decisions?

- **Management style.** The degree to which managers provide clear communication, assistance and support to their subordinates. Do employees generally perceive higher levels of management to be helpful and supportive when needed or is it a case of “sink or swim”? Do employees have confidence and trust in their supervisors? Is communication perceived to flow freely, accurately and undisturbed throughout the
organization upwards, downwards and laterally? Do employees feel that they have the information they need to do their jobs well?

- **Organization focus.** The extent to which the organization is perceived to be concentrating on those activities which form part of the fundamentals of the business. Does the organization involve itself in activities which are peripheral to the fundamental business process or does it restrict itself to what it knows and does well?

- **Organization integration.** The degree to which various subunits within the organization are actively encouraged to operate in a coordinated way by cooperating effectively towards the achievement of overall organizational objectives. Are employees encouraged to work in interdisciplinary teams across departmental boundaries to provide input into the design and delivery of the product or service to the customer? Is there a spirit among employees, which causes them to share information and support each other across departmental or work group boundaries? Are employees encouraged to work with one another for the good of the organization or is each unit or department working in isolation and often in conflict with one another?

- **Performance orientation.** The extent to which emphasis is placed on individual accountability for clearly defined results and a high level of performance. Is it perceived as important to have clear goals and performance standards? Do employees perceive an emphasis on doing a good job? Do employees perceive individual and collective goals to be demanding and actively sought by supervisors? Do employees perceive a clear organizational norm to maintain progress and strive towards excellence?

- **Reward orientation.** The degree to which reward allocations are based on employee performance in contrast to seniority or favoritism. Do employees perceive a linkage between reward and performance or is reward dependant on service, seniority, qualifications or other non – performance related factors? Do employees perceive the
organization to place emphasis on positively reinforcing behavior which supports the
organizations objectives as opposed to focusing on negatively punishing behavior that
does not support the organization’s objectives? Do employees perceive the
organization’s reward system as reinforcing the notion that most employees are good
performers or that most employees are not good performers?

- Task structure. The degree to which rules and regulations and direct supervision is
applied to manage employee behavior. Do employees perceive the execution of their
duties to be governed by rules, regulations, policies, procedures, working through
channels or do they perceive a loose and informal atmosphere which allows them to
be creative and innovative in pursuing the achievement of organizational objectives?

2.4 ORGANIZATIONAL CULTURE AND FINANCIAL PERFORMANCE

Two important literature sources, amongst others, relating to organizational culture and
financial performance were reviewed. These are the doctoral thesis by van der Post
(1997) referred to previously and Kotter and Heskett (1992) who, over a four -year period
conducted four studies to determine whether there is a relationship between corporate
culture and long – term economic performance.

According to van der Post, the literature on the measurement of organizational
effectiveness and performance reveals these to be highly complex matters. In determining
a yardstick for financial performance, he took the following financial performance
measures into account
- return on average equity
- return on average assets
- total asset growth rate
- share return

Van der Post’s study does not attempt to establish causality between organizational
culture and financial performance. It merely describes which dimensions of
organizational culture are associated with organizational performance. However, although he does not prove causality statistically, he nevertheless says that a case is made (based on a theoretical framework adapted from Denison and illustrated further on) for explaining the relationship between organizational culture and performance. This is that an organizational culture that provides direction, involvement, consistency, adaptability and innovation by its human resource, contributes positively towards organizational performance (Denison, 1990:5 in van der Post, 1997).

The general framework or model adapted from Denison (1990:5) by van der Post, suggests four integrative mechanisms by means of which an organization’s culture may influence its performance. He describes these as follows:

1. **Direction**
Direction stresses the importance of a shared definition of the function and purpose of an organization and its members i.e. a mission. A properly defined and communicated mission provides purpose and meaning as well as a number of non-economic reasons why the organization’s performance is important. It also provides clear direction and goals that serve to define the appropriate course of action for the organization and its members. Success is more likely when individuals are more goal-directed and the organizational members collectively work towards a common goal.

2. **Involvement**
This mechanism stems directly from human relations theory. The central theme is that organizational performance is a function of the level of involvement and participation of an organization’s members. High levels of involvement and participation create a sense of ownership and responsibility that in turn results in a greater commitment to an organization.

The involvement mechanism asserts that the inclusion and participation of members in the processes of the organization will outweigh the dissention, inconsistency and nonconformity associated with a more undemocratic internal process. By being involved employees have the opportunity to contribute their knowledge and skill and decisions, therefore will reflect multiple viewpoints, be perceived as legitimate and have a higher
likelihood of implementation. This process, over time, results in better decisions and responses from the organization, thus leading to better performance.

3. Consistency
This emphasizes the impact that a “strong” culture can have on performance. A shared system of beliefs, values and symbols widely understood by an organization’s members has a positive impact on their ability to reach consensus and carry out coordinated actions. Shared meaning has a positive impact because an organization’s members all work from a common framework of values and beliefs that form the basis through which they communicate. A strong culture with well-socialized members, improves performance because it facilitates the exchange of information and coordination of behavior.

Integration also plays a role in organizational performance. Integration, which is analogous to shared meaning refers to the existence of a strong system of norms and expectations that is widely agreed between members and serves to regulate behavior in a way that formal structures, rules and bureaucracy cannot achieve.

4. Adaptability and innovation
A cultural theory of organizational adaptation would describe a system of norms and beliefs that can support the capacity of the organization to receive, interpret and translate signals from its environment into behavioral changes that increases its chances for survival, growth and development.

The adaptability mechanism is likely to impact on organizational performance in three possible ways. First, there is the ability to perceive and respond to the external environment. It has been shown repeatedly that one of the distinguishing characteristics of successful organizations is their obsession with external customers and competitors. Secondly, there is the ability to respond to internal customers. Insularity regarding other departments, divisions or districts within the same organization denotes an internal lack of adaptability that must have a direct impact on performance. Thirdly, adaptation to either internal or external customers requires a capacity to restructure and re-institutionalize a set of behaviors and processes that allow an organization to adapt. Without this capacity to implement an adaptive response, an organization’s performance must be detrimentally affected.
All of the three arguments of adaptability above are either supported or inhibited by an organization’s culture.
The term innovation, for the purpose of van der Post’s theoretical framework, refers to the process of bringing any new problem solving idea into use. It is the generation, acceptance and implementation of new ideas, processes, products or services and can occur in any part of the organization. Kanter (1983: 23, in van der Post, 1997) maintains that organizations need to create conditions that make it possible for individuals to experiment, to create, to develop, to test i.e. to innovate. All people on all fronts and at all levels can contribute to solving organizational problems, to inventing new methods or strategies.
It is organizations, which have a culture of pride and change, and which provide supportive and empowering environments that can more readily produce the innovative response that helps it stay ahead of change and outperform competitors.
Figure 2.2 A framework for explaining the relationship between organizational culture and performance (van der Post, 1997:11)
The second source of information relating to organizational culture and performance was the publication by Kotter and Heskett (1992). According to them, almost all books on corporate culture state or imply a relationship to long-term economic performance. They say that although these theories are rarely very explicit and vary endlessly, they basically fall into three categories.

**Theory I**
The first and most elegant of the culture-performance perspectives associates “strong” cultures with excellent performance. This theoretical perspective describes a strong corporate culture as one in which almost all managers share a set of relatively consistent values and ways of doing business. The logic of how cultural strength relates to performance involves three ideas, the first of which is goal alignment. The authors’ say that in a firm with a strong culture, employees tend to march to the same drummer. The second idea is that strong cultures create an unusual level of motivation in employees. Thirdly, strong cultures are also said to help performance because they provide the necessary structure and controls without having to rely on a stifling formal bureaucracy that can dampen motivation and innovation.

**Theory II**
The second perspective on the relationship of culture and performance directly addresses a major criticism of the first. This perspective, referred to as Theory II by Kotter and Heskett (1992: 28), explicitly states the direction that cultures must align and motivate employees if they are to enhance company performance. The key concept employed is that of fit. This perspective asserts that the content of a culture, in terms of which values and behaviors are common, is as important, if not more important, than its strength. Further, it asserts that there is no such thing as generically good cultural content; there is no one-size-fits-all “winning” culture that works well anywhere. Instead, in Theory II, a culture is good only if it “fits” its context, whether one means by context the objective conditions of its industry, that segment of its industry specified by a firm’s strategy, or the business strategy itself. According to this perspective, only those contextually or strategically appropriate cultures will be associated with excellent performance. The better the fit, the better the performance; the poorer the fit, the poorer the performance.
Theory III
The third perspective on the subject of culture and performance is that of adaptation. The basic logic of Theory III is very straightforward: only cultures that can help organizations anticipate and adapt to environmental change will be associated with superior performance over long periods of time. Kilman (in Kotter and Heskett, 1992:44) describes an adaptive culture in this way: “An adaptive culture entails a risk-taking, trusting, and proactive approach to organizational as well as individual life. Members actively support one another’s efforts to identify all problems and implement workable solutions. There is a shared feeling of confidence: the members believe, without a doubt, that they can effectively manage whatever new problems and opportunities will come their way. There is widespread enthusiasm, a spirit of doing whatever it takes to achieve organizational success. The members are receptive to change and innovation”.

2.5 MERGERS AND ACQUISITIONS

2.5.1 Definition of Mergers and Acquisitions
Before discussing the relationship between mergers/acquisitions and human resource issues, it is important to mention the fact that mergers and acquisitions are legally different transactions. Within the literature, the two terms tend to be treated synonymously (Humpal, 1971, in Cartwright and Cooper, 1996). The *Oxford Dictionary* defines an acquisition as ‘an outright gain of something especially useful’ and a merger as ‘the joining or gradual blending of two previously discrete entities.’ An acquisition, or takeover, occurs when an organization acquires sufficient shares to gain control/ownership of another organization and may be ‘friendly’, ‘contested’ or ‘hostile’. Mergers on the other hand, represent a cooperative agreement, usually between organizations more closely matched in terms of size, etc. (Cartwright and Cooper, 1996). Generally the overt power relationships between parties to an acquisition is likely to differ from that between merger partners – at least at the time of the initial announcement. In an acquisition, there are clear winners and losers; power is not negotiable, but is immediately surrendered to the new parent on completion of the deal.
(Mangham, 1973), or as McManus and Hergert (1988) state, ‘Those who hold title also hold the pen to draw the organizational chart’ (Cartwright and Cooper, 1996).

As Cartwright and Cooper (1996) suggest, a merger is rarely a marriage between equals, but as the parties are likely to be more evenly matched in terms of size, the distribution of power is more likely to evolve over time. Therefore there will be greater and more overt initial conflict and resistance to change within bitterly fought takeovers, particularly if the issue has mobilized the entire workforce, than in voluntary mergers and acquisitions. In such circumstances they say, feelings of defeat and powerlessness are likely to be heightened.

The distribution of power has important implications for merger outcomes in setting the scene and direction of future cultural change (Cartwright and Cooper, 1996:33).

2.5.2 History of Mergers and Acquisitions

Merger and acquisition activity has been described as occurring in waves. In the U.K the first wave was in the 1920s, the second in the 1960s and the third in the early 1970s. The fourth biggest and most sustained wave occurred in the 1980s. The level of activity began to fall in the early 1990s. However, because merger and acquisition activity still continues at a sufficiently high level it is perhaps no longer appropriate to award it the temporary status of a ‘wave’. Rather both mergers and acquisitions and strategic alliances should be recognized as potentially permanent features of organizational evolution in an increasingly competitive and global market economy (Cartwright and Cooper, 1996:13).

The phenomenal growth in merger and acquisition activity is further confirmed by the Management Consulting Services, Ernst and Young (1997). They say that mergers and acquisitions are a favored strategic alternative to organic growth for companies and that during the past decade the number, frequency and scale of mergers and acquisitions have increased significantly. For example, in South Africa alone R30,5 billion was spent on this strategy during 1994, an amount equal to 8% of the country’s entire GNP of the corresponding year. They go on to say that the current and future expected increase in merger \ acquisition activities can be ascribed to the following: companies searching for new sources of growth; the consolidation or converging of industries, which in turn force
competing companies to seek partners; surges in stock prices providing additional purchasing power; globalization; readily available and attractive finance; and the restructuring of supplier patterns due to customer repositioning.

As can be seen, in a time of rapid globalization and consolidation, mergers have become almost an inevitable part of doing business and an essential element of corporate survival. But all too often these deals fail to result in a whole that is greater than the sum of the parts, or even equal to them (Fisher, 1998:70).

In an article about the merger between IBM and Lotus, Rifkin (1998:45) states that high-tech mergers and acquisitions have left a spotty record over the last two decades. According to him, many of the largest, most visible deals have failed outright or produced a dubious pay-off for their participants. He says that great expectations have often been dashed by a combination of a lack of vision and the difficulties associated with the merging of disparate product lines, operations and cultures in an unforgiving and rapidly shifting marketplace.

Cartwright and Cooper (1996) state that during the 1980s, mergers, acquisitions and other forms of strategic alliance, dominated the business and financial press, especially when they proved unsuccessful. They go on to say that this preoccupation with the incidence and outcome of such organizational marriages was hardly surprising for, in the 1980s, mergers and acquisitions became a worldwide growth industry. However, they argue that, although the opportunity to merge or acquire is presented to shareholders as a strategy for wealth creation, it is estimated that more than half of all mergers and acquisitions prove financially unsuccessful.

Irrespective of the criteria selected, research evidence has repeatedly demonstrated that mergers have had an unfavorable impact on profitability. Instead of achieving the projected economies of scale, mergers have become associated with lowered productivity, worse strike records, higher absenteeism and poorer accident rates rather than greater profitability (Meeks, 1977; Sinetar, 1981 in Cartwright and Cooper, 1996:24). It has been suggested that, in the long-term, between 50 percent and 80
percent of all mergers are considered to be financially unsuccessful (Ellis and Pekar, 1978; Marks, 1988a in Cartwright and Cooper, 1996:24).

Further evidence of the disappointing result of mergers and acquisitions is provided by Ernst and Young (1997). They say that it is estimated that somewhere between 65% and 85% of mergers and acquisitions do not meet the expectations that management had when making the decision to merge or acquire. According to them, half of all mergers and acquisitions fail outright and in 90% of cases the performance of the newly formed organizations fall below expectations. Well over two thirds of acquisitions earn less than the bank deposit rate for the acquirers and one out of every three mergers or acquisitions is later undone, typically within five years after the event.

They provide two broad reasons for this poor track record:

- **Poor strategic choices**: an incorrect strategic decision about which companies to merge or acquire based on a flawed theory of strategic leverage.
- **Detrimental organizational dynamics**: issues and problems that surface during the course of setting up, taking hold and launching of the merged or acquired companies, in spite of a good strategic choice. Examples of such issues and problems are: poor past relationships between the respective companies, inexperience in managing mergers and acquisitions, personality clashes, an inappropriate degree or pace of integration, cultural incompatibility, the weakening or destruction of strategic leverage during the process of merging or acquiring; and poorly managed employee reactions to the process. For example, it is estimated that people-related problems cause one third of all mergers to not meet financial expectations.

Organizational dynamics therefore play a significant role in the ultimate success or failure of any organizational marriage (Ernst and Young, 1997).
2.6 MERGERS AND ACQUISITIONS AND HUMAN RESOURCE ISSUES

Mergers and acquisitions have been likened to a marriage between two people. Ashkenas, DeMonaco and Francis (1998:175) describe an acquisition to be like an arranged marriage. They say that the ‘parents’ negotiate the deal, sign the contract, and then expect the ‘newlyweds’ to live together in harmony. However an arranged marriage has a much better chance of success than an acquisition does since only one couple is involved, and the parties usually come from similar cultures and share common values. In acquisitions, many people – sometimes thousands – need to learn how to live together and the values and mindsets of the acquiring and acquired organizations almost always differ. That disparity is even more marked when the two companies are based in different national cultures. The vital issue then, when integrating any acquisition, is how to speed the process of getting dozens, hundreds, or thousands of people to work together in harmony. The challenge is to get people from different cultures who may even have been competitors, to build a new company that will grow and prosper (Ashkenas et. al, 1998:175).

Legare (1998:33) states that most mergers and acquisitions are premised on the belief that the combined company will have greater value than the two companies alone. Yet, he says, the ultimate success of the deal may depend on how well the acquirers manage the difficult organizational and human resource integration issues at their newly purchased company. Furthermore, he says that for example, sometimes interpersonal conflict can emanate from the top of an organization when key executives cannot agree on a general corporate direction. More often, however, interpersonal conflict arises because corporate staff and division managers have differing perspectives on what their company wants (and needs) from a merger. If these human resource issues are not resolved, they can result in the turnover of key people, people refusing assignments, drop in post – merger performance, and morale problems. In his paper Legare describes the acquisition of Apollo Computer by the Hewlett – Packard Company (HP) and says that HP’s failure to develop a plan for integrating the two organizations and cultures created an analytic vacuum that was subsequently filled with dilemmas and conflicts.
Another well-recognized source of merger problems is managerial relationships. However, it is not only the successful integration of senior management alone that is important. Line managers and the rest of the workforce also need to be integrated if any merger or acquisition is to achieve overall success. This is because often employees are not directly involved in the negotiation or execution of an acquisition but still feel its impact, in that it produces a psychological ripple, which is felt throughout the organization. Mergers and acquisitions are about power, differing perceptions, cultures and definitions of the situation and so are potentially conflictual, the social and cultural ramifications of which extend beyond the boardroom (Cartwright and Cooper, 1996:36).

According to Cartwright and Cooper (1996:38), on the basis of their own and previous research in this area, there is sufficient commonality of experience to suggest that the scenario of events which immediately follows a merger or acquisition announcement is likely to be typical of all combinations. They have called these the ‘five absolute truths’ about mergers and acquisitions. They are as follows:

1. **Mergers and acquisitions are emotive events, which affect everybody.**
   
   Although those negotiating the deal view mergers and acquisitions mainly as financial transactions, most employees experience them as an emotional and stressful life event. Mirvis (1985) has suggested that the psychological response to a merger can be understood within the framework of the Kubler–Ross model of personal bereavement. Mirvis argues that employee reactions will pass through four stages:
   
   - Stage 1 - Disbelief and denial
   - Stage 2 - Anger through rage and resentment
   - Stage 3 - Emotional bargaining beginning in anger and ending in depression
   - Stage 4 - Acceptance

2. **Mergers and acquisitions create an expectancy of change and increase organizational cohesiveness.**

   The expectancy of change and shared sense of loss that is felt by the people in an organization as a result of a merger or acquisition causes them to close ranks and pull
together. This results in an increased cohesiveness between people and a consequent breaking down of communication barriers and stimulation of intra – and interdepartmental interaction.

3 Merger or acquiring management are invariably overconfident in their estimation of the speed and ease with which they can achieve integration

As mentioned previously, management usually concentrates and spends large amounts of time on the financial planning aspects of a merger or acquisition without giving much attention to the human aspects of the process. They invariably assume and expect that the acquired workforce will abandon their own culture and adopt the culture of the acquiring organization. This is usually not the case and results in the adverse effects described previously.

4 Mergers and acquisitions result in unplanned personnel losses

Although it has been found that unplanned personnel losses occur at all levels of the organization, the highest staff turnover and increased absenteeism takes place amongst blue – collar and shopfloor workers. Employees leave for various reasons, including the fact that they consider themselves unable to fit into the new organization and also the uncertainty created by the merger \ acquisition process.

5. Mergers and acquisitions are stressful

Mergers and acquisitions can be a severely stressful experience for the employees of an organization for a number of reasons. These include, amongst others, lack of information and poor or inconsistent communication, loss of identity, fear of job loss, ambiguous reporting systems etc.

2.7 MANAGEMENT AND INTEGRATION OF MERGERS AND ACQUISITIONS

Previous research and work done on mergers and acquisitions has involved the study of these phenomena through several theoretical lenses. These different studies have emphasized, and focused on, different aspects of, and motives for, mergers and acquisitions. For example some have included the study of mergers and acquisitions as a method of diversification and have focused on the motives for the different types of
combinations. Other studies have placed an emphasis on factors such as economies of scale and market power as motives for the merger and have used accounting based measures to measure acquisition performance. Finally, mergers and acquisitions have also been studied from a human resource management perspective with an emphasis on psychological issues and the importance of effective communication. (Larsson and Finkelstein, 1999:2).

As a result of the fragmented and non-integrative nature of previous research work done on mergers and acquisitions, Larsson and Finkelstein (1999) have developed and tested an integrative Merger and Acquisition Model. It views merger and acquisition performance (conceptualized as synergy realization) as a function of combination potential, organizational integration and employee resistance. They conceptualize the combination potential in terms of both the strategic similarity and strategic complementarity of the operations of the joining firms. Organizational integration is defined as the degree of interaction and coordination between the two firms involved in the merger or acquisition. With respect to employee resistance, they conceptualize individual employee reactions primarily from psychological and career perspectives while viewing collective reactions from a cultural perspective.

The findings of their study, besides providing considerable support for their integrative model, more importantly indicates that researchers should consider strategic, organizational and human resource management explanations for merger and acquisition success simultaneously. They say that each of these main antecedents to merger and acquisition performance is independently and significantly related to synergy realization.

Another important model relating to the management and integration of the merger acquisition process is the Pathfinder Model (Ashkenas et al., 1998). This is a model that was developed by GE Capital Services, a financial services company that has made numerous acquisitions over the years. This extensive experience has enabled them to test, debate, discuss and refine their acquisition integration processes to such a degree that they have been able to codify it into a model. The model divides the process into four “action stages”. The first stage involves the work that goes on before the acquisition is completed and continues all the way through to the stage of assimilation.
Before describing the model, it should be mentioned that, as a result of its extensive acquisition experience, GE learnt four important lessons. These are as follows:

1. Acquisition integration is not a discrete phase of a deal and does not begin when the documents are signed. Rather, it is a process that begins with due diligence and runs through the ongoing management of the new enterprise.

2. Integration management is a full-time job and needs to be recognized as a distinct business function, just like operations, marketing, or finance.

3. Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible after the deal is signed—within days, if possible. Creeping changes, uncertainty, and anxiety that last for months are debilitating and immediately start to drain value from an acquisition.

4. A successful integration melds not only the various technical aspects of the businesses but also the different cultures. The best way to do so is to get people working together quickly to solve business problems and accomplish results that could not have been achieved before.

**The Pathfinder Model**

**Stage 1: Pre-acquisition**

This stage involves the due diligence study of the company intended to be acquired (acquiree company), negotiations regarding the transaction and announcement and closure of the deal. The important steps that must be taken in this stage are:

- start a cultural assessment of the acquired company
- identify business and cultural barriers to integration success
- select an integration manager
- assess the strengths and weaknesses of the business and function leaders
- develop a communication strategy
Stage 2: Foundation building

The launch of the combined companies now takes place. An acquisition integration workout is performed and strategy is formulated. The following must be done at this time:

- formally introduce the integration manager to the staff
- orient the new executives to GE Capital’s business rhythms and nonnegotiable issues
- jointly formulate an integration plan which includes a 100–day plan for the integration of the acquisition (this plan outlines what will be done in the first 100 days to bring the new company into GE Capital) and a communication plan
- visibly involve senior management in the process
- provide sufficient resources and assign accountability

Stage 3: Rapid integration

This is the stage of implementation and course assessment and adjustment. Important actions now are:

- the use of process mapping, Cross-cultural analysis and Workout (a structured three–day session between GE Capital and the newly acquired management team where data from the two companies is discussed and compared to highlight areas of convergence and difference) to accelerate integration
- the use of audit staff for process audits
- using feedback and learning to continually adapt the integration plan
- initiation of short-term management exchange (short–term projects involving managers from the two companies). This helps to bridge the cultural gap and quicken the integration process.

Stage 4: Assimilation

Long-term plans are now evaluated and adjusted and success is capitalized on. It is now imperative to:

- continue developing common tools, practices, processes, and language
- continue longer-term management exchanges
- utilize the corporate education center
- use the audit staff for the integration audit

Figure 2.3 The Pathfinder Model (Ashkenas et. al, 1998)
Ernst and Young (1997) have also developed another useful model for the management and integration of mergers and acquisitions. According to them, even though each merger \ acquisition has its own unique character, four broad phases can be distinguished. Recognition of these phases will enable organizations to reduce the complexity of the merger \ acquisition process and increase its probability of success. However, flexibility in and around these processes must be maintained as the process unfolds, usually in an unpredictable fashion. They say that, because of the scope of the organizational change management process during mergers or acquisitions, the overall process is highly vulnerable to the domino effect whereby unresolved or unsuccessfully handled key issues of earlier phases manifest themselves in later phases in a more severe form. The secret of success therefore, lies in addressing the key issues of each phase timeously and appropriately.

The key issues of each phase are now discussed.

**The Ernst and Young Model**

**Phase 1: Search for enhanced strategic synergy**

The core issue in this phase is whether the acquiree company fits in with the strategy of the acquiring company.

The core competencies and capabilities and associated strengths and weaknesses of the acquirer must be understood. Insight must also be sought into its ‘missing’ strategic synergies and the need for strategic leverage. The other key issues that needs to be addressed are the prior merging or acquiring history of the acquirer and the development of a proper acquisition strategy in support of its business strategy.

**Phase 2: Initiation, conclusion and announcement of the deal**

Of core importance here is the determination of organizational fit. An in depth compatibility assessment of the organizations to be integrated must be done.

The key issues of concern are the development of a proper insight into the histories of the prospective parties in order to build a mutual understanding, determination of the nature of their past and present relationship and interaction, the rationale of the acquirer for the acquisition and the positions and involvement of stakeholders in the deal.
Other key issues in this phase are the adoption of a multidisciplinary perspective on the respective companies, addressing the manner in which the deal develops and closes, the degree of compatibility between negotiating organizations, the identity of the new organization, understanding of the critical success factors to make the merger\acquisition successful, the degree, pace and intensity of integration and assurances to create a safety net underneath the process.

Phase 3: Integration of the organizations

Fundamental to this phase is organizational performance.

Key to this phase are that the integration momentum must be sustained in order to attain strategic leverage rapidly, the management of risk and damage control, the protection and actualization of strategic leverage, the management of critical success factors, management of change, building and realization of a new identity and the establishment of in depth reciprocal organizational understanding within an historical setting.

Phase 4: Launching the renewal of the newly formed organization

The organization must now be transformed and change managed on a continuing basis. The company must focus on its strategic intent (‘doing the right things’) and alignment (‘doing things right’).

Please see Appendix D for a detailed roadmap of the merger\acquisition process as described in the Ernst and Young Model.

2.8 MANAGEMENT OF MERGERS AND ACQUISITIONS FROM A CULTURAL PERSPECTIVE

Hall (1995) states that the relationship between partner companies (companies involved in merger\acquisitions) is the key to managing successfully and that any company can get along with another if they actively manage their cultural differences. She argues that behaviors are the key part of culture where executives need to concentrate. Her research has enabled her to develop a model, which distinguishes four company cultural styles of behavior. Each style is a reflection of the way the company goes about doing things, its
strengths and weaknesses, the ease or difficulty with which it relates to other styles and how it reacts to stress.

The four styles of behavior are the North style (low assertive, low responsive), the South style (high assertive, high responsive), the East style (high assertive, high responsive) and the West style (high assertive, low responsive).

2.8.1 Cultural skills

According to Hall (1995), there are five cultural skills that executives need to acquire in order to make a partnership or merger/acquisition work. These are as follows:

1. Making Profiles: This involves making a photograph or style profile of the company to be acquired or merged with. This partner company’s cultural profile indicates how they prefer to approach and be approached by a partner or acquiring company, how they prefer to negotiate and how they prefer to manage on an ongoing basis. In order to determine a company’s cultural style, two basic questions must be asked viz. “does the company tend to behave more often in a high or low assertive ways?” and “does the company tend to behave more often in high or low responsive ways? By knowing what the cultural style of their partner companies is, helps companies realize where they differ from each other.

2. Assessing Strengths and Weaknesses: There are weaknesses and strengths to each company cultural style. The strengths of a company’s cultural style are the behaviors associated with that style while companies experience their greatest weakness when they use the behaviors of their opposite style. For example, the strengths of North style company cultures are their precision and consistency while their weaknesses include a general skepticism, lack of vision and a reactive rather than a proactive approach to competition.

3. Estimating Cultural Synergy: This skill involves an understanding of partner fit and partner clash. Executives need to understand why companies either click or clash when they interact with each other. They need to develop the ability to determine how compatible partner companies are with each other. There are three parts to determining cultural synergy. The first part is the positive potential of the combination i.e. the benefits of cultural differences. The second part or negative
impact of a cultural combination is the cost incurred as a result of the cultural differences. Thirdly, an estimate of cultural costs or budget has to be made and integrated into the overall synergy plan to arrive at the net synergy effect of the combination.

4. Exercising Cultural Flexibility: This is the willingness and ability to consciously take actions to meet the partner’s style of relating. Companies that exercise flexibility are prepared to modify their assertive and responsive behavior in order to make the partner feel more comfortable. In this way companies are able to bridge their differences in style and thus become more compatible.

5. Interacting with Cultural Literacy: Cultural literacy is the ability to choose and use the most appropriate management processes for a partner of each style. The three main management processes viz. problem – solving, decision making and communicating are used in different ways, depending on which is appropriate for the company that is being related to.

2.8.2 Handling Cultural Problems Effectively

Hall (1995) describes four main phases of a merger\ acquisition or alliance process and shows how to interact effectively with partners of different styles. She argues that the cultural skills should be applied in each phase to improve the relationship. The four phases are the following:

- Needs assessment phase: the way the partner is chosen
- Pre alliance process phase: the way the deal is approached
- Pending alliance process phase: the way the deal is prepared
- Post – alliance process phase: the way the ongoing deal is managed

In the needs assessment phase the two companies involved in the merger or acquisition should get their expectations right. The problem in this phase is that the companies usually approach the merger\ acquisition in the way they usually do things. This inevitably leads to friction. Therefore in order to prepare for cultural differences in this phase, three main activities need to be performed. Firstly an initial impression of a candidate’s company cultural style must be prepared. Secondly the list of partnership
options for cultural blind-spots must be reconsidered and thirdly, a realistic expectation of the time needed to reach a firm decision to proceed to negotiation (time for exploratory discussions) must be formed.

In the pre-merger acquisition phase the conduction of activities between the two partner companies occurs for the first time. During this phase the companies should discuss their perceived differences and behavior in a neutral, objective and non-emotional manner. The second cultural skill of identifying the strengths and weaknesses of each style should be applied at this time.

The main cultural problem in the pending partnership phase is that the two companies start to experience misunderstandings between themselves. This however is a normal part of any relationship but it should nevertheless be realized that this phase (or the negotiation phase) is loaded with power issues. Thus the main objective of companies in this phase is not to be blindly naïve or overly suspicious, but to make a reasonably culturally accurate description (Hall, 1995:213). Thus the third cultural skill viz. understanding why companies click or clash, should be applied in this period.

In the post-alliance phase, the management process includes ongoing problem-solving, decision-making and communication processes amongst the many other interactions. The reason is that, once the deal is signed both partners tend to go back to their own “normal” way of doing things. This is an obvious cause of cultural friction, which can be prevented by applying the fourth cultural skill of cultural flexibility. The partners should in fact bend over backwards to accommodate each other. This is the key to continuing an effective relationship and to help each partner accommodate to the other’s style on an ongoing basis.

2.8.3 Making Companies Compatible

With respect to partnerships, Hall (1995:248) concludes the following:

1. Awareness and recognition of cultural styles allows us to anticipate potential cultural misunderstandings in advance and enables us to take action to prevent them leading to conflict.

2. Operating an effective merger or acquisition is possible without cultural fit. Often we do not have the luxury of choice. Economic and structural considerations are more
important than cultural reasons in deciding on a partner. A partnership between those of different cultural styles, if managed properly, can even lead to a synergistic benefit, especially in cases of changing industry conditions.

3. In most cases it is an ineffective strategy to impose one partner’s cultural style on the other partner. Partners have the option to withdraw from active cooperation. Imposing a cultural style may cause a partner to exercise this option. At the least it can be expected to spark resistance, which delays progress.

4. Executives who are capable of behaving in a culturally literate way are not a luxury, they are key to forming the type of relationship which can pivot through the vulnerability and secure cooperation.

In conclusion it must again be said that although successful mergers and acquisitions are dependent on economic and financial factors, cultural elements play too large a role not to be considered as an integral part of the management process. Executives, and especially CEOs, must take the initiative to manage interactions between their company and their partners. Instead of letting the relationship take its course, cultural differences must be managed (Hall, 1995:251).
3. RESEARCH METHODOLOGY

The methodology employed in conducting the research project is described in this section. It includes a description of the research problem and research setting, the research hypothesis, the participants, the research procedure and the measurements and statistical analysis performed.

3.1 THE RESEARCH PROBLEM AND RESEARCH SETTING

3.1.1 Introduction
As has been mentioned in the literature review section, during the 1980s mergers, acquisitions and other forms of strategic alliance dominated the business and financial press, especially when they proved unsuccessful. It has been estimated that more than half of all mergers and acquisitions prove financially unsuccessful (Cartwright and Cooper, 1996). But what are the reasons for this disturbingly large percentage of failed mergers and acquisitions? According to Cartwright and Cooper (1996), historically, mergers and acquisitions have been considered exclusively the domain of economists, market strategists and financial advisers. Thus the financial and strategic aspects of the activity have been extensively addressed and it is these aspects that are traditionally focused on when mergers and acquisitions fail. On the other hand however, although mergers and acquisitions also affect the people in organizations, the human aspects of the phenomenon have received relatively little attention. Mergers and acquisitions are traditionally considered to fail for rational economic reasons. Factors which are usually cited when these failures occur include reasons such as the non – achievement of the intended economies of scale anticipated, poor or ill – matched strategic fit or unexpected changes in market conditions or exchange rates. However, it has been found that the rational economic explanations usually cited for the failure of mergers and acquisitions are usually not adequate. It is increasingly being realized by progressive organizations that the employees involved in and affected by the process and the cultures of the joining organizations, are an integral part of the success or failure of a merger or acquisition. Human factors are therefore increasingly being held responsible for merger and acquisition failure.
3.1.2 The research problem

This research study has focused on the measurement of the changes in organizational culture dimensions and financial performance of a specific South African firm, eight months after it had gone through a merger and acquisition process, as has been described in the introduction to this report. Although it was obvious that the racial composition of the acquiring and acquired firm were vastly different especially given the historical and political context in which the firms were formed and operated, it was hypothesized that the cultures of the two organizations also differed considerably. The effect that the merging of these two cultures had on the culture and performance of the new company was the main focus of this study.

Although previous research has been conducted on the effects of mergers and acquisitions on organizational culture and performance in companies outside of South Africa, not much material is available on the subject with respect to South African companies. The study has thus attempted to measure the cultural dimensions of both companies before and after the merger and to determine if there was a statistically significant difference in the culture dimension scores as a result of the combination. Data relating to the measurement of financial performance of the merged company was collected as secondary data and not subjected to statistical analysis. These financial performance parameters were tabulated and presented graphically to compare their differences before and after the merger.

The objective of this research study therefore has been to determine whether the organizational culture and financial performance of Pathnet had been negatively affected as a result of the merger.

3.1.3 Relevance of this study

South Africa’s history is one of racial discrimination and inequality where the majority of its people were deliberately and systematically marginalized and prevented from realizing their full potential in the country of their birth. The majority of the Black population (African, Indian and Coloured), have consequently found themselves in a decidedly disadvantageous position as compared to their fellow White South Africans. The latter were given absolute freedom to pursue and acquire the necessary skills and to become the best that they could,
not only in their chosen careers, but also in other disciplines as well e.g. sport. We thus find that White and Black South Africans, as a result of their vastly different experiences, have developed different worldviews and cultures. However, even within the Black sector of the population and as a result of the somewhat lesser degree of oppression meted out to the Indian and Coloured people, different worldviews and cultures have developed.

As a result of this inequality, the greater workforce of South Africa does not have the necessary education and skills to make the country economically competitive with other countries around the world. Compared with these countries, South Africa consistently ranks very low in terms of its productivity (World Competitiveness Yearbook, 1999). If this situation is to be redressed, then it is important that the education level and skills of the majority of the population be improved as a matter of urgency. However it is also important that the different sectors of the population learn to work together and to interact and cooperate with each other in a positive manner in order for the country to benefit from the efforts of its people.

This positive interaction and cooperation has become necessary for two important reasons. Firstly, as a result of the demise of Apartheid and the new political dispensation, organizations are employing a more racially and culturally diverse workforce. Secondly, as we have seen, mergers and acquisitions have become a common way of conducting business and achieving organizational growth, not only internationally, but also in South Africa. As mentioned, research outside of South Africa has shown that more than half of all mergers and acquisitions fail, many of them because of failure to address the people issues. In light of this fact and the increasing frequency of mergers and acquisitions in the country, coupled with its racial and cultural diversity (both group and organizational), there is a high probability that productivity can be further negatively affected. This is something that South Africa can ill-afford. Thus it is important that managers in this country recognize these factors and address them effectively in order for the country to have an economically, politically and socially stable future.
The following is an extract taken from Productivity SA (1999:25)

People and Productivity Enhancement

People can best improve productivity if they have:

- a positive attitude of mind
- mutual trust and faith in people
- motivation
- achievement orientation
- cultural ethos
- pride in their work
- judicious application of science and technology

Walter Aiger in Productivity Everywhere: Wealth and Prosperity for All
Productivity SA (1999:25)

3.2 THE RESEARCH HYPOTHESIS

Mergers and acquisitions are considered to be rational financial and strategic alliances made in the best interests of the organization and its shareholders. The literature on merger motives generally draws the distinction between financial or value - maximizing motives and managerial or non - value - maximizing motives (Napier, 1989, in Cartwright and Cooper, 1996). Mergers are considered to be initiated by financial or value - maximizing motives when the main objective is to increase shareholder and financial synergy through economies of scale, transfer of knowledge and increased control. Managerial or non - value - maximizing motives relate to mergers which occur primarily for other strategic reasons, e.g. to increase market share etc. (Cartwright and Cooper, 1996).
Unlike material assets or market share, it is generally not easy for organizations to measure the value of their people. They are thus often overlooked or little considered at the time a decision to merge or acquire is made. In a survey carried out by the London Business School and Egon Zehnder (Hunt, 1988) of forty British acquisitions, all forty companies conducted a financial and legal audit of the company they intended to acquire. However, not one made any attempt to carry out an audit of the company’s human resources to assess the indigenous talent they were acquiring (Cartwright and Cooper, 1996).

In view of the above and for the purpose of this research study, the following hypothesis was made: Pathnet National and Pathnet Western Cape considered only growth factors (financial) as the rationale for their respective merger with and acquisition of the Davies and Associates Pathology firm. Due consideration was not given to the negative effect it would have on the culture, climate and overall financial performance of the companies.

3.3 THE PARTICIPANTS
Subjects in this study comprised the entire staff complement of Pathnet National and Pathnet Western Cape. They included the managing pathologists, junior and senior management, technologists, administration staff and people involved in other functional areas of the business such as sales and marketing. The total staff complement of the merged company is one hundred and a questionnaire was administered to each one of them (effectively conducting a census or using saturation sampling). Of the total number of questionnaires administered, sixty were returned this being a response rate of 60%.

As far as the interviews were concerned however, non – probability sampling of the judgmental type was used. Using this sampling method, which involved the use the researchers own judgement to select cases, people from different levels of the organization were chosen. Ten people were interviewed. The rationale for interviewing selected people from the various levels of the organization was not only to obtain an insight into the perceptions, attitudes and feelings of people involved at these different levels, but also to provide assistance in answering the research question and to meet the research objective. It
was hoped that more comprehensive knowledge would be attained and the reliability and validity of the research findings would also be improved.

3.4 THE PROCEDURE

The approach to this research project involved the use of theory. The theory upon which this research study is based is that mergers and acquisitions affect the culture and financial performance of an organization. The empirical test to which this theory was subjected was the actual research process and the results of that process are the proof or refutation of the theory.

In conducting this study, both a *positivist* and a *phenomenological* approach was used. The positivist approach is the scientific approach to research. Robson (1993: 18 – 19 in Saunders, Lewis and Thornhill, 1997:71) lists five sequential stages through which positivist research will go, starting from the deduction of an hypothesis from the theory through to the confirmation of the theory or its modification if necessary. Stage 1 and 2 have already been addressed in this report viz. the deduction of an hypothesis and the assertion that mergers and acquisitions have a negative effect on organizational culture and financial performance. Stage three involved the administration of a questionnaire while stage four involved the statistical analysis of the primary data obtained in stage three. Both stages three, four and five will be discussed later in this section.

The phenomenological approach to research is so called because it is based on the way people experience social phenomena in the world in which they live (Saunders et al., 1997). It focuses on the meanings that research subjects attach to social phenomena. I was interested in the feelings and attitudes of the staff and top management of the companies in question regarding the effect that the merger \ acquisition had on the culture and financial performance of the organization. The phenomenological approach to investigate this social phenomenon was to interview the subjects who are part of the phenomenon. The interviews and their outcomes are also discussed later in this report.
The research methods employed included both survey and case study methods. The survey method involved the collection of primary data through the administration of a questionnaire to the entire staff complement of the company, as mentioned previously. A covering letter was attached to each questionnaire. In it an explanation of the research project, reason for the survey and anonymity of the survey was provided. (Please refer to Appendix A for a sample of the questionnaire and covering letter).

An arrangement was made with the person in charge of personnel who agreed to take responsibility for the distribution of the questionnaires to all the staff members. The entire batch of questionnaires was delivered to her office and the responses collected a week later. As mentioned before, a census or saturation sampling procedure was followed in that each and every member of the company was given a questionnaire to complete.

With respect to the interviews these were of the semi-structured or non-standardized type. A letter requesting an interview and the reason for the interview was hand-delivered to each potential interviewee. The reason for the selection of the potential interviewee was also included in the letter (Please refer to Appendix A for a sample of this letter).

Semi-structured interviews do not involve the use of a standard set of questions that are posed to each interviewee. Instead, a list of themes and questions relating to the subject of mergers, acquisitions and organizational culture was used in a varying manner from interview to interview. In other words, the order and logic of the questions varied depending on the flow of the conversation. The data collected from the interviews was recorded both by note-taking and recording the conversation.

The interviews took place either at the researcher’s office or at the work place of the interviewee depending on which was more convenient for the interviewee. Prior to the interview, the interviewees were once again given the assurance of confidentiality as confirmed in the letter and requested to provide their free and frank opinions during the interview. Interviewees were allowed to request that the tape-recorder be switched off at any time during the interview in case they did not want to have a response recorded.

The average length of time for each interview was forty-five minutes and each was held at a time when the interviewees were under the least work pressure. This was mainly in the afternoons or even after work in the case of a few people.
By using both interviews and questionnaires to collect data, it was hoped that triangulation would take place. Triangulation is a research strategy that involves using several methods to reveal multiple aspects of a single empirical reality (Denzin, 1978, in Silverman 1998). A major assumption of the triangulation strategy is that sociological research is a discovery process designed to get at an objective truth that may be systematized as a formal theory of social structure and process. Triangulation assumes that looking at an object from more than one standpoint provides researchers and theorists with more comprehensive knowledge about the object. This approach also assumes that ‘there is an overwhelming need for a single set of standards by which the methodological act can be evaluated (Denzin, 1978:339, in Silverman 1998).

3.5 THE MEASURES

The Questionnaire

The questionnaire that was used in the research survey is divided into two sections. The first part identifies a number of variables. These include the organization that the respondent worked for prior to the merger/acquisition and the length of time worked in this company, job capacity or level of employment both before and after the merger and the functional area in which the respondent works. It was important to identify which of the two organizations the individual worked for prior to the merger/acquisition in order to determine if there was a significant difference in attitude, feelings and perceptions before and after the merger both within and between each organization. The level of employment (management or non-management) of the respondent before and after the merger was indicated to determine if the merger/acquisition impacted positively or negatively on the individual’s career in terms of promotion to, or demotion from, a managerial position. Finally, the length of service the respondent had with their respective organizations prior to the merger was also requested to determine whether there was a correlation between their culture dimension scores and length of service.

The second part of the questionnaire is a shortened version of that developed and used by van der Post in his research survey for his doctoral thesis (1997) and which has been referred
to previously. Van der Post developed the questionnaire to measure organizational culture in terms of the fifteen dimensions referred to in the Literature Review. These dimensions of culture are summarized in the table below.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict resolution</td>
<td>The degree to which the organization is perceived to encourage employees to air conflicts and criticisms openly.</td>
</tr>
<tr>
<td>Culture management</td>
<td>The extent to which the organization actively and deliberately engages in shaping the organization’s culture.</td>
</tr>
<tr>
<td>Customer orientation</td>
<td>The extent to which the organization takes the views of customers seriously and actively responds to such views.</td>
</tr>
<tr>
<td>Disposition towards change</td>
<td>The degree to which employees are encouraged to be creative and innovative and to constantly search for better ways of getting the job done.</td>
</tr>
<tr>
<td>Employee participation</td>
<td>The extent to which employees perceive themselves as participating in the decision – making process of the organization.</td>
</tr>
<tr>
<td>Goal clarity</td>
<td>The degree to which the organization creates clear objectives and performance expectations.</td>
</tr>
<tr>
<td>Human resources orientation</td>
<td>The extent to which the organization is perceived as having a high regard for its human resources.</td>
</tr>
<tr>
<td>Identification with the organization</td>
<td>The degree to which employees are encouraged to identify with the organization.</td>
</tr>
<tr>
<td>Locus of authority</td>
<td>The degree of authority, freedom and independence that individual employees have in their jobs.</td>
</tr>
<tr>
<td>Management style</td>
<td>The degree to which managers provide clear communication, assistance and support to their subordinates.</td>
</tr>
<tr>
<td>Organization focus</td>
<td>The extent to which the organization is perceived to be concentrating on those activities which form part of the fundamentals of the business.</td>
</tr>
<tr>
<td>Organization integration</td>
<td>The degree to which various subunits within the organization are actively encouraged to operate in a coordinated way by cooperating effectively towards the achievement of overall organizational objectives.</td>
</tr>
<tr>
<td>Performance orientation</td>
<td>The extent to which emphasis is placed on individual accountability for clearly defined results and a high level of performance.</td>
</tr>
<tr>
<td>Reward orientation</td>
<td>The degree to which reward allocations are based on employee performance in contrast to seniority, favoritism or any other non – performance criterion.</td>
</tr>
<tr>
<td>Task structure</td>
<td>The degree to which rules and regulations and direct supervision are applied to manage employee behavior.</td>
</tr>
</tbody>
</table>

Table 3.1 Dimensions of organizational culture (van der Post, 1997)

The constructs in the table were utilized as the basis on which the questionnaire items were produced for the questionnaire (van der Post, 1997).
While van der Post’s final questionnaire has ninety-seven items, the one used in this study was reduced to sixty items in order to reduce the time taken to complete the questionnaire especially since the respondents had to score each item twice, i.e. before and after the merger. The sixty items were randomly organized into a Likert-type questionnaire that consisted of a five-point scale. (Please refer to Appendix A for a sample of the questionnaire and covering letter). The items relating to each culture dimension was stated both positively and negatively in order to prevent any bias in scoring and to increase the reliability of the scores. Respondents had five choices per item, ranging from complete disagreement to complete agreement with the statement.

The questionnaire was scored according to the method used by van der Post as follows: For positive statements the actual scale numbers marked by the respondents were taken as the score for that statement. For negative statements the score was derived by using the following formula:

\[(5 + 1) - \text{(actual scale number selected by respondent)}\]

An illustration of the Likert scale and scores is provided below.

**Scores for positive statements**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completely disagree</td>
<td>Slightly disagree</td>
<td>Undecided</td>
<td>Slightly agree</td>
<td>Completely agree</td>
</tr>
</tbody>
</table>

**Scores for negative statements**

<table>
<thead>
<tr>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completely disagree</td>
<td>Slightly disagree</td>
<td>Undecided</td>
<td>Slightly agree</td>
<td>Completely agree</td>
</tr>
</tbody>
</table>
Thirteen of the fifteen culture dimension constructs as illustrated in table 3.1 had four items or statements relating to it in the questionnaire. One had three items and another five items relating to it. A key was used to determine if an item was positively or negatively stated in order to compute its score for that respondent. The key also indicated to which culture dimension the item was related. (Please refer to Appendix B for the key).

3.6 ANALYSIS OF THE PRIMARY DATA
3.6.1 Quantitative Data
The primary data collected via the administration of the questionnaire was analyzed using both descriptive and inferential statistical techniques. The actual techniques chosen were dictated by the numeric data elicited by both the Likert scale items and the categorical data elicited in the first part of the questionnaire. Data on the quantitative variables were displayed in contingency table form and graphically using bar charts to offer insights about the variables.

The financial performance parameters obtained from secondary sources were also presented in tabular and graphical form in order to provide a visual comparison of these parameters both before and after the merger \ acquisition. No inferential statistical techniques were performed on this data.

The main objective of the research was to determine if the merger \ acquisition caused a statistically significant difference in the organizational culture of Pathnet. This was done by measuring and analyzing the culture dimension scores of each organization by using various statistical tests. (Please refer to Appendix C for the culture dimension scores and related data). Since the data elicited from the Likert – scale questionnaire was discrete or discontinuous, it was appropriate to use non – parametric tests in the analysis as opposed to tests which assume that the data is normally distributed (such as the t –test). It was hoped that the results achieved would thus be more valid.
The following tests were used in the analysis:

1. **The Wilcoxon Matched – Pairs Signed - Ranks Test**

   This was used to test the null hypothesis that there was no statistically significant difference between each culture dimension score and the overall culture dimension score within each organization before and after the merger. In order to do this, the sixty responses obtained were divided into two samples based on which organization the respondent worked for prior to the merger / acquisition. The smaller sample (Sample 1) consisted of 18 people (n₁ = 18) who had worked for Pathnet prior to the merger / acquisition while the larger sample (Sample 2) of 39 respondents (n₂ = 39) comprised people who had worked for P.G. Davies and Associates before the merger / acquisition. Three responses did not lend themselves to analysis due to insufficient data.

   Using the Wilcoxon test, the culture dimension scores of the smaller sample were firstly compared. Each culture dimension score before the merger was compared with the score of the same culture dimension, but after the merger to determine if there was a statistically significant difference in these scores. In this way it was possible to determine if the merger / acquisition impacted more on some culture dimensions than on others.

   The total score of all the culture dimensions before and after the merger for the same sample were then compared with each other. This was performed in order to see if the merger / acquisition caused a significant change in the overall culture of the organization as perceived by the people who had worked for Pathnet before the merger / acquisition. The same comparisons were made on the culture dimension scores of the larger sample (Sample 2) by using the same test.

   A diagrammatic illustration of these comparisons is provided below:
For Sample 1 (n₁ = 18):

For Sample 2 (n₂ = 39)

2. **Mann – Whitney U test**

   This test was first used to determine if there was a significant difference in the organizational culture *between* the two groups before the merger. This was done by firstly comparing the individual, and then the overall culture dimension scores (before the merger) of each sample. The rationale for this comparison was twofold. The first was to see if the overall cultures of the two organizations were compatible or not prior to the merger (by comparing the total culture dimension scores). The second rationale was to determine whether the groups differed significantly from each other in terms of each individual culture dimension.

A diagrammatic illustration of the comparison is presented below.
The test was then also performed on the post-merger culture dimension scores of the two samples, again both individually and collectively. This was done to determine if the merger impacted more on one group than the other as would be indicated by a significant difference in the scores. If the merger had the same or a similar impact on each group, then no significant difference would be indicated by the tests.

This comparison is also diagrammatically illustrated below.

3. **Correlation Analysis**

The length of service that the respondents in each sample enjoyed with their respective companies prior to the merger was correlated with their culture dimension scores, firstly before the merger and then after the merger. The rationale behind this analysis was to determine whether the perceptions, attitudes and feelings relating to organizational culture (as indicated by the culture dimension scores) before and after the merger was associated with the length of time that the respondent had worked for their respective companies before the merger \ acquisition. One could then get an indication as to
whether the people who were employed for a longer period at their pre – merger company viewed the merger in a more positive or more negative light i.e. perceived the merged company to have a stronger or weaker culture, as compared to their colleagues who were employed for a shorter period.

Again, because of the discrete nature of the data, the Spearman Rank correlation coefficient, as opposed to the Pearson correlation coefficient, was computed.

3.6.2 Qualitative Data

As mentioned previously, qualitative primary data was obtained through the conduction of semi – structured interviews by using a list of themes and questions relating to the merger acquisition and its effect on the culture of the organization. This data was not analyzed with the aid of a computer software package as in the case of the quantitative data. Instead, the outcomes of the interviews will be discussed in the Findings section of this report.

3.7 LIMITATIONS OF THE STUDY

As mentioned previously, a multi – method approach was adopted in conducting this research study in that both case – study and survey methods were used to collect the primary data with secondary data also being used to satisfy the research objective and answer the research question. However, each method, tool or technique has its strengths and weaknesses (Smith, 1975 in Saunders et al., 1997).

There is an inevitable relationship between the data collection method employed and the results obtained. Generally, the results will be affected by the method used. The problem here is that it is impossible to ascertain the nature of that effect. The rationale thus for the multi – method approach was that since all different methods will have different effects, it is sensible to use different methods to cancel out the ‘method effect’. It was thereby hoped that greater confidence could be placed in the conclusions reached (Saunders et al., 1997).
The reliability of the findings may have been reduced by both subject error and subject bias. In the former situation, respondents may have either misunderstood the statements on the questionnaire and thus provided an answer which may not have been a true reflection of their feelings, attitudes and perceptions. Their emotional status or other distractions at the time of completing the questionnaire may also have resulted in a non-representative response. On the other hand, despite the fact that the survey was anonymous, the sensitive nature of the information requested and the unpleasantness surrounding the merger\ acquisition, may have also caused people to respond in a biased manner by providing answers that would not place them in disfavor with management.

With respect to the interviews, interviewees may either have exaggerated or downplayed their feelings relating to, and the information they provided about, the merger\ acquisition depending on the ‘message’ they wanted to convey to the interviewer. For example, those who were negatively affected by the transaction may have conveyed a completely negative message despite having some positive sentiments about it. The fact that the researcher was also a member of a subunit of the larger organization, the same as Pathnet, may also have played a role in this regard.

It should also be mentioned that, in order to identify a trend in mergers and acquisitions, more than one or an industry-wide study needs to be undertaken before reliable conclusions can be drawn regarding the effects that these transactions have on organizational culture. The fact that organizational culture is a multi-dimensional phenomenon also poses limitations on drawing definitive conclusions from a study of this nature.

Finally, although previous research has been done on organizational culture and financial performance on public companies, no specific research data is available on the effect of mergers and acquisitions on the financial performance *per se* of unlisted companies. The financial parameters used for the purpose of this study were nonetheless not those used in the study of the listed companies.
4. FINDINGS

The results of the study will be discussed in terms of 1) the quantitative analysis and 2) the qualitative analysis of the primary data and 3) evaluation of the secondary data.

4.1 QUANTITATIVE ANALYSIS

4.1.1 Descriptive Analysis

The primary data obtained from the first part of the questionnaire is presented in this section.

As mentioned previously, a census or saturation sampling technique was used to obtain primary data via the administration of a questionnaire. Using this method, one questionnaire was given to each staff member, the total staff complement being 100. Sixty questionnaires were returned, providing an anticipated response rate of 60%.

The results of the descriptive analysis are presented below.

*Company of Employment before the merger*

![Company of Employment before the merger](image)

Of the 60 responses obtained, 18 respondents (30%) were employed by Pathnet before the merger and 39 respondents (65%) worked for P.G. Davies before the merger. 3 of the respondents gave no indication as to which company they were employed at before the merger.
Of the 18 respondents who worked for Pathnet before the merger, 3 (17%) were employed in a managerial position and 12 (67%) in a non-managerial position. The other 3 respondents did not volunteer their job capacity before the merger.

Of the 18 former Pathnet employees, none (0%) indicated that they were working in a managerial capacity after the merger while 13 (72%) indicated that they were employed in a non-managerial capacity. The job capacity status after the merger of 5 (28%) of the 18 employees was not indicated on the questionnaire.
Of the 39 employees who worked for P.G. Davies and Associates before the merger 5 (13%) worked as managers while 28 (72%) worked in a non–managerial capacity. 6 (15%) did not say what their job capacity was at P.G. Davies and Associates before the merger.

After the merger, 7 (18%) of the 39 former P.G. Davies and Associates employees now indicated that they were working as managers while there were still 28 (72%) non–managers. 4 (10%) of the 39 respondents omitted their job capacity status after the merger.
Of the 3 respondents whose pre-merger company of employment was not given, 1 (33%) was a manager, 1 (33%) worked in a non-management capacity and 1 (33%) did not volunteer his/her pre-merger job capacity.

After the merger, the 3 respondents whose former company was unknown now indicated their job capacity as follows: 1 (33%) in non-management and 2 (67%) gave no information in this regard.
The functional work areas of the employees of Pathnet (post – merger \ acquisition) and the number employed in each of these areas was as follows: General Management – 4 (7%); Production – 6 (10%); Sales and Marketing – 1 (2%); Finance and Accounting – 3 (5%); Human Resources – 2 (3%); Administration – 23 (38%); Nursing & Other – 21 (35%).

Of the 18 respondents (out of the total of 60) who were employed by Pathnet before the merger (former Pathnet employees), 1 (2%) worked in general management after the merger, 2 (3%) in production, 2 (3%) in finance and accounting, 7 (12%) in administration and 6 (10%) in nursing and other functional areas.

Of the 39 respondents (out of the total of 60) who were employed by P.G. Davies and Associates before the merger (former P.G. Davies employees), 2 (3%) worked in general management after the merger, 4 (7%) in production, 1 (2%) in sales and marketing, 1 (2%) in finance and accounting, 2 (3%) in human resources management, 15 (25%) in administration and 14 (23%) in nursing or another functional area.
Of the 3 respondents (out of the total of 60) whose pre-merger company of employment was unknown, 1 (2%) worked in general management after the merger, 1 (2%) in administration and 1 (2%) in nursing or another functional area.

Length of service

With respect to the length of service the respondents had with their pre-merger company, all former Pathnet employees (18) worked for the company for less than 2 years (the laboratory division had only been operational for a little more than one year and the administrative division for just under two years, prior to the merger). On the other hand, more than 50% of the former P.G. Davies employees worked at this company for 2–3 years or longer before the merger.

### Figure 4.9

With respect to the length of service the respondents had with their pre-merger company, all former Pathnet employees (18) worked for the company for less than 2 years (the laboratory division had only been operational for a little more than one year and the administrative division for just under two years, prior to the merger). On the other hand, more than 50% of the former P.G. Davies employees worked at this company for 2–3 years or longer before the merger.

#### 4.1.2 Tests of Differences

**Wilcoxon Matched - Pairs Signed - Ranks Test**

As mentioned in the methodology section, this test was used to find out if there were statistically significant differences in the culture dimension scores before and after the merger within each group or sample. The test was performed on each group separately.
Specifically, it was intended to test the null hypothesis that there was no difference in the mean culture dimension score (population mean) before and after the merger for each group. This applied to the culture dimensions individually and collectively. The fifteen culture dimensions are listed below and followed by the results of the analysis.

<table>
<thead>
<tr>
<th>Culture dimension key:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD 1: Conflict resolution</td>
</tr>
<tr>
<td>CD 2: Culture management</td>
</tr>
<tr>
<td>CD 3: Customer orientation</td>
</tr>
<tr>
<td>CD 4: Disposition towards change</td>
</tr>
<tr>
<td>CD 5: Employee participation</td>
</tr>
<tr>
<td>CD 6: Goal clarity</td>
</tr>
<tr>
<td>CD 7: Human resource orientation</td>
</tr>
<tr>
<td>CD 8: Identification with the organization</td>
</tr>
<tr>
<td>CD 9: Management style</td>
</tr>
<tr>
<td>CD 10: Organization focus</td>
</tr>
<tr>
<td>CD 11: Organization integration</td>
</tr>
<tr>
<td>CD 12: Performance orientation</td>
</tr>
<tr>
<td>CD 13: Reward orientation</td>
</tr>
<tr>
<td>CD 14: Locus of authority</td>
</tr>
<tr>
<td>CD 15: Task structure</td>
</tr>
</tbody>
</table>

**Abbreviations:**

- CD = Culture dimension
- BM = Before the merger
- AM = After the merger
- TOT.SC. B = Total culture dimension score before the merger
- TOT.SC.A = Total culture dimension score after the merger

Table 4.1
### Sample 1 Wilcoxon Test Results (Previous Pathnet employees)

<table>
<thead>
<tr>
<th>Pair of variables</th>
<th>N</th>
<th>Calculated $T$ value</th>
<th>Critical $T$ value</th>
<th>Significance level</th>
<th>$z$ - value</th>
<th>Significant difference?</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD1BM &amp; CD1AM</td>
<td>18</td>
<td>33.00000</td>
<td>40</td>
<td>.05</td>
<td>1.224141</td>
<td>Yes</td>
</tr>
<tr>
<td>CD2BM &amp; CD2AM</td>
<td>18</td>
<td>17.00000</td>
<td>40</td>
<td>.05</td>
<td>1.070259</td>
<td>Yes</td>
</tr>
<tr>
<td>CD3BM &amp; CD3AM</td>
<td>18</td>
<td>12.00000</td>
<td>40</td>
<td>.05</td>
<td>2.118054</td>
<td>Yes</td>
</tr>
<tr>
<td>CD4BM &amp; CD4AM</td>
<td>18</td>
<td>43.50000</td>
<td>40</td>
<td>.05</td>
<td>0.564988</td>
<td>No</td>
</tr>
<tr>
<td>CD5BM &amp; CD5AM</td>
<td>18</td>
<td>20.50000</td>
<td>40</td>
<td>.05</td>
<td>1.747141</td>
<td>Yes</td>
</tr>
<tr>
<td>CD6BM &amp; CD6AM</td>
<td>18</td>
<td>27.00000</td>
<td>40</td>
<td>.05</td>
<td>1.874274</td>
<td>Yes</td>
</tr>
<tr>
<td>CD7BM &amp; CD7AM</td>
<td>18</td>
<td>18.00000</td>
<td>40</td>
<td>.05</td>
<td>1.921856</td>
<td>Yes</td>
</tr>
<tr>
<td>CD8BM &amp; CD8AM</td>
<td>18</td>
<td>19.50000</td>
<td>40</td>
<td>.05</td>
<td>2.698272</td>
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</tr>
<tr>
<td>CD9BM &amp; CD9AM</td>
<td>18</td>
<td>25.50000</td>
<td>40</td>
<td>.05</td>
<td>1.959468</td>
<td>Yes</td>
</tr>
<tr>
<td>CD10BM &amp; CD10AM</td>
<td>18</td>
<td>23.00000</td>
<td>40</td>
<td>.05</td>
<td>1.572427</td>
<td>Yes</td>
</tr>
<tr>
<td>CD11BM &amp; CD11AM</td>
<td>18</td>
<td>36.00000</td>
<td>40</td>
<td>.05</td>
<td>1.035812</td>
<td>Yes</td>
</tr>
<tr>
<td>CD12BM &amp; CD12AM</td>
<td>18</td>
<td>42.00000</td>
<td>40</td>
<td>.05</td>
<td>0.244600</td>
<td>No</td>
</tr>
<tr>
<td>CD13BM &amp; CD13AM</td>
<td>18</td>
<td>42.00000</td>
<td>40</td>
<td>.05</td>
<td>1.344428</td>
<td>No</td>
</tr>
<tr>
<td>CD14BM &amp; CD14AM</td>
<td>18</td>
<td>24.50000</td>
<td>40</td>
<td>.05</td>
<td>1.757741</td>
<td>Yes</td>
</tr>
<tr>
<td>CD15BM &amp; CD15AM</td>
<td>18</td>
<td>32.00000</td>
<td>40</td>
<td>.05</td>
<td>0.943456</td>
<td>Yes</td>
</tr>
<tr>
<td>TOTSCB &amp; TOTSCA</td>
<td>18</td>
<td>34.50000</td>
<td>40</td>
<td>.05</td>
<td>2.221068</td>
<td>Yes</td>
</tr>
</tbody>
</table>

### Table 4.2

As can be seen in table 4.2, the null hypothesis - that there is no statistically significant difference in the mean culture dimension scores (individually and collectively) before and after the merger – has been rejected in twelve of the fifteen comparisons of individual culture dimension scores and also the total score. This indicates that the staff who worked at Pathnet prior to the merger\ acquisition felt and believed that there was a significant change in the culture of the organization as a result of the merger\ acquisition. The three culture dimensions, which did not change significantly, were disposition toward change and performance and reward orientation. It should be noted that, due the small sample size ($n = 18$), the $T$ – value, as opposed to the $z$ – value, has been used to determine the presence or absence of a significant difference.
### Sample 2 Wilcoxon Test Results (Previous P.G. Davies and Associates employees)

<table>
<thead>
<tr>
<th>Pair of variables</th>
<th>N</th>
<th>Calculated z-value</th>
<th>Critical z-value</th>
<th>Significance level</th>
<th>p-value</th>
<th>Significant difference?</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD1BM &amp; CD1AM</td>
<td>39</td>
<td>1.417475</td>
<td>1.96</td>
<td>.05</td>
<td>.156354</td>
<td>No</td>
</tr>
<tr>
<td>CD2BM &amp; CD2AM</td>
<td>39</td>
<td>1.748351</td>
<td>1.96</td>
<td>.05</td>
<td>.080413</td>
<td>No</td>
</tr>
<tr>
<td>CD3BM &amp; CD3AM</td>
<td>39</td>
<td>3.011080</td>
<td>1.96</td>
<td>.05</td>
<td>.002605</td>
<td>Yes</td>
</tr>
<tr>
<td>CD4BM &amp; CD4AM</td>
<td>39</td>
<td>1.587320</td>
<td>1.96</td>
<td>.05</td>
<td>.112450</td>
<td>No</td>
</tr>
<tr>
<td>CD5BM &amp; CD5AM</td>
<td>39</td>
<td>0.408425</td>
<td>1.96</td>
<td>.05</td>
<td>.682964</td>
<td>No</td>
</tr>
<tr>
<td>CD6BM &amp; CD6AM</td>
<td>39</td>
<td>3.636103</td>
<td>1.96</td>
<td>.05</td>
<td>.000277</td>
<td>Yes</td>
</tr>
<tr>
<td>CD7BM &amp; CD7AM</td>
<td>39</td>
<td>1.959654</td>
<td>1.96</td>
<td>.05</td>
<td>.050045</td>
<td>No</td>
</tr>
<tr>
<td>CD8BM &amp; CD8AM</td>
<td>39</td>
<td>2.607219</td>
<td>1.96</td>
<td>.05</td>
<td>.009132</td>
<td>Yes</td>
</tr>
<tr>
<td>CD9BM &amp; CD9AM</td>
<td>39</td>
<td>0.841452</td>
<td>1.96</td>
<td>.05</td>
<td>.400101</td>
<td>No</td>
</tr>
<tr>
<td>CD10BM &amp; CD10AM</td>
<td>39</td>
<td>2.293370</td>
<td>1.96</td>
<td>.05</td>
<td>.021833</td>
<td>Yes</td>
</tr>
<tr>
<td>CD11BM &amp; CD11AM</td>
<td>39</td>
<td>1.271528</td>
<td>1.96</td>
<td>.05</td>
<td>.203550</td>
<td>No</td>
</tr>
<tr>
<td>CD12BM &amp; CD12AM</td>
<td>39</td>
<td>2.723920</td>
<td>1.96</td>
<td>.05</td>
<td>.006455</td>
<td>Yes</td>
</tr>
<tr>
<td>CD13BM &amp; CD13AM</td>
<td>39</td>
<td>1.810328</td>
<td>1.96</td>
<td>.05</td>
<td>.070254</td>
<td>No</td>
</tr>
<tr>
<td>CD14BM &amp; CD14AM</td>
<td>39</td>
<td>0.013453</td>
<td>1.96</td>
<td>.05</td>
<td>.989266</td>
<td>No</td>
</tr>
<tr>
<td>CD15BM &amp; CD15AM</td>
<td>39</td>
<td>2.270362</td>
<td>1.96</td>
<td>.05</td>
<td>.023192</td>
<td>Yes</td>
</tr>
<tr>
<td>TOTSCB &amp; TOTSCA</td>
<td>39</td>
<td>2.163025</td>
<td>1.96</td>
<td>.05</td>
<td>.030547</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 4.3

Table 4.3 reveals that in six of the fifteen comparisons of individual culture dimension scores the null hypothesis has been rejected indicating a significant change in these dimensions after the merger. This is less than the number of dimensions which changed in sample 1. However the total score for sample 2 also showed a significant change after the merger, as in sample 1. The individual culture dimensions which changed significantly in sample 2 were customer orientation, goal clarity, identification with the organization, organization focus, performance orientation and task structure. In this analysis, unlike the previous one, the z – value has been used to indicate the presence or absence of a significant difference because of the large sample (n₂ = 39).
Mann – Whitney U Test

As also indicated previously, this test was done to compare the culture dimension scores between the two groups, firstly before the merger and then after the merger. The rationale for performing this test is provided in the methodology section. The results of the tests are presented in the tables below.

<table>
<thead>
<tr>
<th>Sample 1 vs Sample 2</th>
<th>Calculated z - value</th>
<th>Critical Z - value</th>
<th>Significance Level</th>
<th>p - value</th>
<th>Significant difference?</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD1 vs CD1</td>
<td>.474536</td>
<td>1.96</td>
<td>.05</td>
<td>.636853</td>
<td>No</td>
</tr>
<tr>
<td>CD2 vs CD2</td>
<td>1.26770</td>
<td>1.96</td>
<td>.05</td>
<td>.207025</td>
<td>No</td>
</tr>
<tr>
<td>CD3 vs CD3</td>
<td>2.18771</td>
<td>1.96</td>
<td>.05</td>
<td>.029886</td>
<td>Yes</td>
</tr>
<tr>
<td>CD4 vs CD4</td>
<td>1.79428</td>
<td>1.96</td>
<td>.05</td>
<td>.074202</td>
<td>No</td>
</tr>
<tr>
<td>CD5 vs CD5</td>
<td>0.78356</td>
<td>1.96</td>
<td>.05</td>
<td>.434736</td>
<td>No</td>
</tr>
<tr>
<td>CD6 vs CD6</td>
<td>0.371530</td>
<td>1.96</td>
<td>.05</td>
<td>.712054</td>
<td>No</td>
</tr>
<tr>
<td>CD7 vs CD7</td>
<td>1.25859</td>
<td>1.96</td>
<td>.05</td>
<td>.210131</td>
<td>No</td>
</tr>
<tr>
<td>CD8 vs CD8</td>
<td>0.12944</td>
<td>1.96</td>
<td>.05</td>
<td>.897551</td>
<td>No</td>
</tr>
<tr>
<td>CD9 vs CD9</td>
<td>0.870267</td>
<td>1.96</td>
<td>.05</td>
<td>.385970</td>
<td>No</td>
</tr>
<tr>
<td>CD10 vs CD10</td>
<td>0.612623</td>
<td>1.96</td>
<td>.05</td>
<td>.542232</td>
<td>No</td>
</tr>
<tr>
<td>CD11 vs CD11</td>
<td>1.68573</td>
<td>1.96</td>
<td>.05</td>
<td>.094173</td>
<td>No</td>
</tr>
<tr>
<td>CD12 vs CD12</td>
<td>2.33187</td>
<td>1.96</td>
<td>.05</td>
<td>.020476</td>
<td>Yes</td>
</tr>
<tr>
<td>CD13 vs CD13</td>
<td>1.49832</td>
<td>1.96</td>
<td>.05</td>
<td>.135296</td>
<td>No</td>
</tr>
<tr>
<td>CD14 vs CD14</td>
<td>0.069187</td>
<td>1.96</td>
<td>.05</td>
<td>.945253</td>
<td>No</td>
</tr>
<tr>
<td>CD15 vs CD15</td>
<td>1.28979</td>
<td>1.96</td>
<td>.05</td>
<td>.200913</td>
<td>No</td>
</tr>
<tr>
<td>TOTCDS vs TOTCDS</td>
<td>5.85442</td>
<td>1.96</td>
<td>.05</td>
<td>.000000</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 4.4

The Mann – Whitney U test results have supported the hypothesis that there was a significant difference in the cultures of the two organizations before the merger. In fact the p value of 0.0000 indicates that the difference was very highly significant. The test
has also indicated a significant difference in two of the individual culture dimension scores of the two companies before the merger viz. customer orientation and performance orientation.

<table>
<thead>
<tr>
<th>Sample 1 vs Sample 2</th>
<th>Calculated z - value</th>
<th>Critical Z - value</th>
<th>Significance Level</th>
<th>p - value</th>
<th>Significant difference?</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD1 vs CD1</td>
<td>1.27435</td>
<td>1.96</td>
<td>.05</td>
<td>.203952</td>
<td>No</td>
</tr>
<tr>
<td>CD2 vs CD2</td>
<td>1.86107</td>
<td>1.96</td>
<td>.05</td>
<td>.063735</td>
<td>No</td>
</tr>
<tr>
<td>CD3 vs CD3</td>
<td>2.67951</td>
<td>1.96</td>
<td>.05</td>
<td>.007599</td>
<td>Yes</td>
</tr>
<tr>
<td>CD4 vs CD4</td>
<td>1.31114</td>
<td>1.96</td>
<td>.05</td>
<td>.191993</td>
<td>No</td>
</tr>
<tr>
<td>CD5 vs CD5</td>
<td>3.09015</td>
<td>1.96</td>
<td>.05</td>
<td>.002061</td>
<td>Yes</td>
</tr>
<tr>
<td>CD6 vs CD6</td>
<td>0.706738</td>
<td>1.96</td>
<td>.05</td>
<td>.481519</td>
<td>No</td>
</tr>
<tr>
<td>CD7 vs CD7</td>
<td>2.87533</td>
<td>1.96</td>
<td>.05</td>
<td>.004147</td>
<td>Yes</td>
</tr>
<tr>
<td>CD8 vs CD8</td>
<td>2.34419</td>
<td>1.96</td>
<td>.05</td>
<td>.019561</td>
<td>Yes</td>
</tr>
<tr>
<td>CD9 vs CD9</td>
<td>2.52985</td>
<td>1.96</td>
<td>.05</td>
<td>.011907</td>
<td>Yes</td>
</tr>
<tr>
<td>CD10 vs CD10</td>
<td>1.31245</td>
<td>1.96</td>
<td>.05</td>
<td>.191993</td>
<td>No</td>
</tr>
<tr>
<td>CD11 vs CD11</td>
<td>2.10390</td>
<td>1.96</td>
<td>.05</td>
<td>.036229</td>
<td>Yes</td>
</tr>
<tr>
<td>CD12 vs CD12</td>
<td>0.85402</td>
<td>1.96</td>
<td>.05</td>
<td>.395446</td>
<td>No</td>
</tr>
<tr>
<td>CD13 vs CD13</td>
<td>2.01847</td>
<td>1.96</td>
<td>.05</td>
<td>.044588</td>
<td>Yes</td>
</tr>
<tr>
<td>CD14 vs CD14</td>
<td>2.09889</td>
<td>1.96</td>
<td>.05</td>
<td>.037000</td>
<td>Yes</td>
</tr>
<tr>
<td>CD15 vs CD15</td>
<td>1.18204</td>
<td>1.96</td>
<td>.05</td>
<td>.239613</td>
<td>No</td>
</tr>
<tr>
<td>TOTCDS vs TOTCDS</td>
<td>5.99205</td>
<td>1.96</td>
<td>.05</td>
<td>.000000</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 4.5

The two organizations once again displayed a significant difference in their perceptions and attitudes regarding the culture of the merged company, as indicated in Table 4.5. On an individual culture dimension level the two companies differed significantly with respect to customer orientation, employee participation, human resource orientation, identification with the organization, management style, organization integration, reward
orientation and locus of authority. The differences in perception between the two groups of the culture of the combined company was also very highly significant, as indicated once again by a p value of 0.0000.

Although the tests indicate a significant difference in the scores as described above, the following table of the means of the culture dimension scores is included in order to indicate in which direction this has occurred (increase or decrease).

<table>
<thead>
<tr>
<th>Culture Dimension</th>
<th>Mean: Sample 1 Before Merger</th>
<th>Mean: Sample 2 Before Merger</th>
<th>Mean: Sample 1 After Merger</th>
<th>Mean: Sample 2 After Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD1</td>
<td>12.11111</td>
<td>13.43590</td>
<td>10.33333</td>
<td>12.05128</td>
</tr>
<tr>
<td>CD2</td>
<td>11.05556</td>
<td>13.84615</td>
<td>10.27778</td>
<td>12.79487</td>
</tr>
<tr>
<td>CD3</td>
<td>12.83333</td>
<td>16.46154</td>
<td>10.72222</td>
<td>14.64103</td>
</tr>
<tr>
<td>CD4</td>
<td>12.50000</td>
<td>15.15385</td>
<td>12.00000</td>
<td>14.00000</td>
</tr>
<tr>
<td>CD5</td>
<td>10.27778</td>
<td>11.61538</td>
<td>8.27778</td>
<td>12.07692</td>
</tr>
<tr>
<td>CD7</td>
<td>11.77778</td>
<td>14.20513</td>
<td>8.388889</td>
<td>12.23077</td>
</tr>
<tr>
<td>CD9</td>
<td>11.55556</td>
<td>13.17949</td>
<td>8.666667</td>
<td>12.12821</td>
</tr>
<tr>
<td>CD10</td>
<td>12.38889</td>
<td>13.94872</td>
<td>11.16667</td>
<td>12.61538</td>
</tr>
<tr>
<td>CD12</td>
<td>12.77778</td>
<td>15.48718</td>
<td>13.16667</td>
<td>14.05128</td>
</tr>
<tr>
<td>CD13</td>
<td>14.00000</td>
<td>16.97436</td>
<td>12.55556</td>
<td>15.38462</td>
</tr>
<tr>
<td>CD14</td>
<td>7.388889</td>
<td>7.589744</td>
<td>5.666667</td>
<td>7.589744</td>
</tr>
<tr>
<td>CD15</td>
<td>10.66667</td>
<td>12.33333</td>
<td>9.888889</td>
<td>11.10256</td>
</tr>
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<td>TOTAL CD Score</td>
<td>180.3333</td>
<td>396.9487</td>
<td>153.3889</td>
<td>377.1795</td>
</tr>
</tbody>
</table>

Table 4.6 Comparison of Mean Culture Dimension Scores

4.1.3 Bivariate Analysis: Measures of Association

Correlation Analysis

In order to determine if there was an association between the length of time that a respondent worked at their pre-merger company and their culture dimension scores
before and after the merger, a Spearman Rank Order correlation was performed. The results of the computation are presented in the tables below below.

### Spearman Rank Order Correlation for Sample 1

<table>
<thead>
<tr>
<th>Pairs of Variables</th>
<th>N</th>
<th>Spearman R</th>
<th>p - level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of service &amp; Total CD Score Before Merger</td>
<td>18</td>
<td>.041995</td>
<td>.868590</td>
</tr>
<tr>
<td>Length of service &amp; Total CD Score After Merger</td>
<td>18</td>
<td>-.600943</td>
<td>.008350</td>
</tr>
</tbody>
</table>

**Table 4.7**

### Spearman Rank Order Correlation for Sample 2

<table>
<thead>
<tr>
<th>Pairs of Variables</th>
<th>N</th>
<th>Spearman R</th>
<th>p - level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of service &amp; Total CD Score Before Merger</td>
<td>39</td>
<td>-.086494</td>
<td>.600581</td>
</tr>
<tr>
<td>Length of service &amp; Total CD Score After Merger</td>
<td>39</td>
<td>-.020647</td>
<td>.900712</td>
</tr>
</tbody>
</table>

**Table 4.8**

With respect to Sample 1, the positive correlation between the length of service and total pre-merger culture dimension score was not statistically significant. However, this is in stark contrast to the strong and statistically significant negative correlation in the post-merger situation. This indicates that the people who worked at Pathnet for a longer period prior to the merger felt more strongly that the merged company had a much weaker culture than before the merger.

In the case of Sample 2, although the correlation coefficients before and after the merger were both negative, they were not at all statistically significant and thus no conclusion could be drawn.
4.2 QUALITATIVE ANALYSIS

4.2.1 Semi – structured Interviews

As mentioned in the methodology section, ten semi – structured interviews were conducted with staff members who had worked at both Pathnet and P. G. Davies and Associates before the merger \ acquisition. The outcome of these interviews will now be discussed.

The interviews were generally initiated by asking the interviewees what they thought were the reasons for the merger. The people who had worked at P. G. Davies and Associates previously indicated that the company needed a new strategic partner as their existing partner had decided to combine with another laboratory group. A merger \ acquisition with Pathnet thus made sense both from a strategic and financial point of view. The reasons given by the staff of Pathnet on the other hand was that the company needed growth, as it did not have a sufficiently large customer base to sustain itself. This included gaining access to the private hospitals which, by acquiring the Davies firm, would be made possible.

With respect to the integration of the two companies, the people from P. G. Davies and Associates and the staff at a managerial level at Pathnet, all felt that the merged company was now operating as a completely integrated entity. The integration occurred spontaneously and was not actively initiated or managed by any specific person or group. Most of the lower level staff from Pathnet on the other hand, felt that the company was not functioning entirely as a complete unit as, in their opinion, some of the staff from either company were still finding it difficult to work together. The proportion of the company that was perceived to be functioning separately ranged from five to fifteen percent.

When asked how long it took before job specifications and positions within the merged company were finalized at the different levels of the organization, interviewees gave different answers. These ranged from a period of one week to three months. This was apparently quite stressful for some interviewees as a result of the uncertainty experienced
during this time. However, all stated that the information was communicated to them verbally either individually or in a group meeting.

The feeling was unanimous amongst all interviewees regarding the impact that the merger had on the productivity levels of the staff. All felt strongly that, although it was not specifically measured, there was a definite decrease in productivity at all levels of the organization. The main reason offered was that the uncertainty and insecurity created by the merger had a de-motivating and morale-lowering effect on the staff. However the resistance to the merger and reluctance of people to work together also impacted negatively on productivity.

The question relating to the conduction of an audit or analysis of each organization’s culture before the merger was also answered in the negative. People from all levels of both organizations in fact indicated that they were totally unaware of the pending merger acquisition until the day that it was announced. At this point the transaction had already been legally concluded. The sudden announcement and the ultimatum given to the staff to either accept the position they would be offered in the merged company or face retrenchment, had a marked stress and anxiety-inducing effect on many people. The consequent delay in informing people about their permanent positions compounded their neuroses.

When asked to comment on the cultures of the two organizations, all interviewees agreed that there was a vast difference in the cultures of the two companies. They felt that the two organizations definitely differed from each other in the way they did things and conducted their business and operations. When asked about which culture they thought was dominant, again all interviewees gave the same answer. All agreed that P.G. Davies and Associates dominated over Pathnet. The staff from the latter company expressed themselves in the following ways with respect to this issue: “we were overwhelmed by them”, “it seems as if they have taken us over”, “we just had to fall in line with their way of doing things” and “I said to a colleague that this is going to be an albatross”.

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The main reasons given for the P.G. Davies group dominating over Pathnet were that the former was a bigger pathology firm with much more experience than the latter.

The opinions expressed by the interviewees when asked whether they thought the merger was successfully managed, were once again virtually the same. All felt that it was not. Some stated that it was badly managed while others felt that it was not managed as well as what it could have been. The main problem cited by all was the very poor communication throughout the process, but especially during the first few weeks following the announcement of the merger \ acquisition.

The benefits of the merger \ acquisition as perceived by the staff from Pathnet was that it had increased its customer base and had gained access to markets that were previously difficult to penetrate.

The five things that most of the interviewees felt they would change about the organization were the following: improve communication between top management and lower level staff, improve in - service training, develop a proper organizational and reporting structure, involve staff in decision – making processes and take steps to improve the interpersonal interaction and communication between the staff.

4.3 EVALUATION OF THE SECONDARY DATA

As has been stated previously, the primary objective of this study was to determine the effect that mergers and acquisitions have on the culture and climate of an organization. However, since previous research has proven that there is a correlation between organizational culture and financial performance, it was deemed appropriate to include data relating to this aspect of organizational activity in this research study.

The parameters that were used to measure the financial performance of both companies before and after the merger were Net Profit \ Loss per month. These values are tabulated and presented graphically below.
NET PROFIT \ (LOSS) PER MONTH (Rands)

<table>
<thead>
<tr>
<th>Month</th>
<th>P.G. Davies (Pre – Acquisition)</th>
<th>Post - Acquisition</th>
<th>Pathnet (Pre - Acquisition)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1998</td>
<td>169 519</td>
<td></td>
<td>(102 230)</td>
</tr>
<tr>
<td>October 1998</td>
<td>(5 622)</td>
<td>(166 179)</td>
<td>(225 509)</td>
</tr>
<tr>
<td>November 1998</td>
<td>8 508</td>
<td>(225 509)</td>
<td>(250 004)</td>
</tr>
<tr>
<td>December 1998</td>
<td>(146 509)</td>
<td>(250 004)</td>
<td></td>
</tr>
<tr>
<td>January 1999</td>
<td>487 232</td>
<td>(138 184)</td>
<td></td>
</tr>
<tr>
<td>February 1999</td>
<td>365 424</td>
<td></td>
<td>(146 710)</td>
</tr>
<tr>
<td>March 1999</td>
<td></td>
<td>(283 603)</td>
<td></td>
</tr>
<tr>
<td>April 1999</td>
<td></td>
<td>(767 170)</td>
<td></td>
</tr>
<tr>
<td>May 1999</td>
<td></td>
<td>(600 827)</td>
<td></td>
</tr>
<tr>
<td>June 1999</td>
<td></td>
<td>(731 695)</td>
<td></td>
</tr>
<tr>
<td>July 1999</td>
<td></td>
<td>(394 873)</td>
<td></td>
</tr>
<tr>
<td>August 1999</td>
<td></td>
<td>(318 734)</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.9  Financial Performance Parameters Pre - & Post – Merger

As can be seen in Table 4.9 and figures 4.10 and 4.11, P.G. Davies and Associates realized a net profit in four of the six months from September 1998 to February 1999.
However, the six months following the merger acquisition saw a monthly net loss for the merged company. Pathnet on the other hand had been experiencing a net monthly loss for the six months leading up to the merger acquisition, although not as marked as that after the merger acquisition.

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5. DISCUSSION

5.1 AN UNUSUAL SITUATION

An important but unusual fact about the organizational marriage between the Pathnet and P.G. Davies and Associates pathology firms was that it involved both a merger and acquisition simultaneously. The importance lies in the fact that mergers and acquisitions are legally different transactions, although the literature tends to treat the two terms synonymously. The combined term ‘merger \ acquisition’ has been used throughout this report because these two different transactions were actually expedited. As mentioned previously, an acquisition occurs when an organization acquires sufficient shares to gain control or ownership of another organization (Cartwright and Cooper, 1996). These takeover bids may either be ‘friendly’, ‘contested’ or ‘hostile’. Usually the acquired organization is smaller and \ or less profitable than the acquirer (Singh, 1971; Meeks, 1977, in Cartwright and Cooper, 1996). Mergers on the other hand usually represent a cooperative agreement between organizations that are more closely matched in terms of size, etc. The unusual aspect about this combination was that P.G. Davies, a much larger and more profitable pathology firm, was acquired (in the case of its laboratory division) by the smaller and non – profitable Pathnet firm (although the latter is a subsidiary of a larger organization, which made this possible). This was clearly evident in the difference in the number of respondents who had worked for each company before the merger \ acquisition. Sample 1 consisted of 18 respondents who had worked at Pathnet prior to the transaction. This was less than half the size of sample 2, which comprised 39 people who had worked at P. G. Davies previously.

The other unusual aspect about the combination concerned the power relationships between the parties. As mentioned in the literature review, there is generally a difference in the overt power relationships between parties, which are involved in an acquisition, as opposed to those involved in a merger. In an acquisition, there are usually clear winners and losers and power is not negotiable. It is usually immediately surrendered to the
acquirer. Thus being acquired is usually construed as a symbol of failure. On the other hand, acquiring companies are usually seen as successful and confident in their future. The distribution of power between the two parties, in the case of a merger, usually evolves over a period if time.

What we have found was that the normal power relationships as described above did not seem hold in this organizational combination. The findings indicate that the acquired company seemed to dominate over the less-experienced acquirer, not only from a cultural perspective but also financially. The staff of the acquired company were also less traumatically affected by the transaction than those of the acquiring company. This unusual domination of an acquired company over the acquiring company (in the case of the laboratory divisions of the two organizations) is evident from the analysis of both the quantitative and qualitative data. The most likely reason for this unusual situation is that the transaction was not purely an acquisition, but also involved a merger between the administrative divisions of the organizations, as mentioned before. The power and cultural dynamics at play in a merger or acquisition as separate transactions thus did not apply in this situation.

5.2 EFFECT ON HUMAN RESOURCES

The greater negative impact of the merger/acquisition on the staff of Pathnet in terms of their job capacity was seen in the number of managerial positions before and after the merger. In the case of the respondents who had worked for Pathnet prior to the merger, three had been employed as managers before the merger while after the merger no respondents worked in a managerial capacity. In the case of the P.G. Davies’ respondents however, the number of managers increased from five to seven. One of the reasons for this seems to be the greater experience of the staff of the P.G. Davies firm who were therefore given preference over those of the Pathnet people with respect to management positions. However, this assertion is not meant to provide a conclusive reason for the redeployment of management staff amongst those who had worked for Pathnet prior to the merger.
On the subject of redeployment, it should be mentioned that mergers and acquisitions involve not only redeployment of staff but also job losses. This is usually as a result of rationalization and role duplicity. Cartwright and Cooper (1996) found that in order to accelerate the process of culture change, organizations frequently elect to replace people. The senior managers of the acquired organization are usually the most vulnerable in this respect. They tend to be removed from the outset _en masse_, irrespective of their individual abilities and competencies. Although the findings indicate that managers from the pre – merger Pathnet firm were redeployed or demoted, as opposed to the increase in managerial positions amongst the P.G. Davies staff, it is not known how many managers were dismissed or elected to leave the new company. Loss of managerial authority is frequently cited as a reason for voluntary decisions to leave acquired or merged organizations (Hayes and Hoag, 1974 in Cartwright and Cooper, 1996). However it should be stated that a senior staff member from the pre – merger Pathnet firm felt that the merger \ acquisition was a perfect ‘wake – up’ call for those who had not been ‘pulling their weight’ so to speak. He felt that some of those people who had left the organization as a result of the transaction fell into this category. He also mentioned that in one specific case an employee was dismissed as a result of insubordination He was also of the opinion that the new firm was ‘better off’ as a result of those people leaving. This viewpoint is not unusual as Cartwright and Cooper (1996) argue that mergers and acquisitions may be seen as an opportunity to get rid of ‘dead wood’. However not everyone who leaves the organization will necessarily be those of the acquirers choosing. Discussions with the lower level staff who had worked for Pathnet previously confirmed that several of their colleagues had indeed voluntarily left the organization. The main reasons given however were that they had left because they found it difficult to work with the staff of the acquired firm and were also unhappy with the changes that had taken place in the organization as a result of merger \ acquisition. The interviews left the impression that more people who had worked at Pathnet prior to the merger left, or were dismissed from, the new combined organization. This reflected a greater degree of unhappiness amongst the people of this group as opposed to those from the P.G. Davies group.
Again, the situation as described above is not unusual as Cartwright and Cooper (1996) found that, apart from early retirements, redundancies and circumstances amounting to constructive dismissal, mergers and acquisitions are associated with high levels of voluntary resignations. They say that unplanned personnel losses are not confined to the more senior levels of the organization but in fact occurs at all levels of an organization and provide an example where the number of employees who voluntarily left an organization outnumbered the planned losses.

According to Charles Handy (Cartwright and Cooper, 1996:47), a psychological contract exists between the individual and his or her organization, whereby each party knows of and has certain expectations of the other, and whose terms determine motivation and organizational commitment. When an organization ceases to exist or is fundamentally changed, that contract is broken or becomes unclear and has to be re – established or negotiated. The period following a merger announcement or rumors, is one of personal risk analysis and self – appraisal, in which an individual decides whether he or she effectively wants to form a ‘new’ contract with his or her new employer.

As discussed previously, mergers and acquisitions are important events in the lives of employees over which they have no control. These events are seen as forcing change upon them, which they usually do want or accept. This results in staff experiencing these events as a stressful and emotional period of their lives. They may thus choose to leave the organization because they feel they will be unable to fit into the new organization and may also leave in response to uncertainty regarding the direction of expected future change. We have found this to be the case in both situations in this study. However, besides the general uncertainty and insecurity associated with mergers and acquisitions and which induces anxiety and stress in employees, we have found that these elements of doubt were compounded by the sudden announcement of the formalized and completed deal. Most of the staff, including many of the top – level staff, were totally unaware of the impending transaction until it had already been legalized and then announced one day before it was to be officially expedited. The staff were then suddenly given letters informing them that they had the option to either accept employment in the new
combined company or face retrenchment. This had the effect of exaggerating the reactions in stages 1 and 2 of the first of the ‘five absolute truths’ about mergers and acquisitions which has been described in the literature review section. Thus disbelief and denial coupled with anger and resentment was heightened amongst employees of both organizations as a result of this lack of communication and lack of information and disclosure regarding the transaction.

The reasons for the lack of information and disclosure about the process are unclear but seem to be related to the sensitive nature of the deal at the time. However, Cartwright and Cooper (1996) argue that so called ‘amicable’ negotiations (which seemed to have characterized this transaction) are likely to be more discreet and less public and so the change in ownership may only be disclosed to the majority of employees when the deal has actually been formalized. They go on to say that this usually occurs in situations where the acquired company is not listed on the Stock Exchange, as was the case in this transaction.

5.3. EFFECT ON ORGANIZATIONAL CULTURE

As described in the methodology section, statistical analysis of the primary data collected via the administration of the questionnaires revealed a significant change in organizational culture within each group as a result of the merger\acquisition. However the transaction impacted less on the people who had worked at P. G. Davies previously as revealed by the fewer number of culture dimension scores which differed significantly after the merger as compared to before, in this group. These results were supported by the results of the interviews, which indicated that the people who had worked at Pathnet before the merger were more adversely affected and aggrieved by the process.

Specifically, twelve dimensions of organizational culture were perceived to have changed significantly in the Pathnet group. As indicated in Table 4.6, which shows a comparison of the mean scores pre – and post – merger, the change was in a negative direction i.e. the post – merger scores were less than the pre – merger scores. This indicates that the staff
who had worked at Pathnet before the merger thought that the merged company had a significantly weaker culture as compared to their pre-merger company. Specifically they felt that the new company did not encourage employees to air conflicts and criticisms openly and also felt that their superiors were not willing to hear different opinions. The merged company was also perceived to lack vision and a set of core values and beliefs, or at least may have failed to communicate them to the staff.

The quality and reliability of customer service after the merger was particularly badly affected in the opinion of the Pathnet staff as borne out not only by the statistical analysis, but also by the views expressed by the interviewees. These people also felt marginalized in terms of being allowed to participate in the decision-making processes of the merged company. They felt that they had a greater say and participation in decisions which directly affected their work and group goals, prior to the merger. The goals, objectives and mission of Pathnet prior to the merger was also significantly clearer to its employees than was the case after the deal was expedited. The company also seemed to have a much higher regard for its employees before the combination with P. G. Davies and Associates. The commitment of the employees of Pathnet to, and also their identification with the organization, was also significantly eroded as a result of the merger.

After the merger, managers did not seem to provide clear communication and support to the staff and they were generally perceived to be less helpful than managers were prior to the merger. Pathnet employees also thought that the merged organization did not concentrate or focus as much on its core activities after the merger as it did before. As confirmed during the interviews by some of the lower level staff who had been employed at Pathnet prior to the merger, the merged organization was not yet operating as an integrated entity. They felt that there were still some parts of the organization which were working in isolation from each other. The merger also impacted on the degree of freedom and independence that employees had in doing their work. They felt disempowered since authority now shifted further to the top thus curtailing their powers to make appropriate decisions. Rules and regulations also became much stricter and supervision more direct after the merger. This may have had the effect of stifling the creativity and innovation of people in their pursuit of the achievement of the objectives of the organization. Interestingly and as mentioned
previously, people who had worked at Pathnet before the merger did not feel that the combined company differed significantly from their pre-merger company with respect to performance and reward orientation and its disposition towards change.

As mentioned above, the merger\acquisition impacted on the organizational culture within the P. G. Davies group to a significantly lesser degree. These employees felt that the culture of the new company was only slightly weaker than their pre-merger company. This is evident by the fewer culture dimension scores which changed significantly after the merger as compared to the Pathnet group (six of the fifteen in the P. G. Davies group compared to twelve of the fifteen in the Pathnet group). Specifically, they felt, as the Pathnet group did, that the merged company had a significantly weaker customer orientation as compared to their pre-merger company. The new company, in their opinion also failed to create clear objectives and performance expectations for its employees and they also did not identify with the it to the same degree as they did with their pre-merger company. Again, like the Pathnet group, the P. G. Davies group also felt that the new company did not concentrate on its core competency and seemed to feel that it involved itself in peripheral activities. Interestingly, the P. G. Davies group, unlike the Pathnet group, felt that their pre-merger company placed a greater emphasis on a high level of performance compared to the merged company. However, like the Pathnet group, the P.G. Davies group also felt that they were more strictly governed by rules and regulations in the execution of their duties after the merger\acquisition.

Comparisons of the organizational culture between the two groups were also made as opposed to within each group as described above. As described in the methodology section, this analysis revealed that there was a significant difference in the cultures of the two organizations before the merger. Comparing the mean pre-merger scores of the two groups indicated that Pathnet had a weaker culture than P. G. Davies and Associates prior to the merger. The reason for this is probably that Pathnet had been in existence for a much shorter period than P.G. Davies and Associates and thus had not as yet had sufficient time to develop a strong culture, as did the P.G. Davies group. Nonetheless the analysis has confirmed the hypothesis that there was a significant difference in the
cultures of the two organizations before the merger. Specifically the analysis revealed that, in addition to having significantly different cultures on a collective basis the two companies differed significantly from each other in terms of two individual culture dimensions viz. customer orientation and performance orientation. The P.G. Davies group seemed to have taken the views of their customers more seriously and provided a much more reliable and better quality customer service before the merger as compared to their Pathnet counterparts. The former group also placed a significantly greater emphasis on a high level of performance and doing a good job before the merger as compared to the latter group during the same period.

Comparison of the perceptions of the organization’s culture between the two groups after the merger took place indicated that, once again, the two groups differed significantly from each other. Specifically, the P.G. Davies group felt more strongly than the Pathnet group did, that the company was providing a good and reliable customer service. The staff of this group also felt that they were involved in the decision – making processes of the organization to a greater extent than their counterparts. This point also featured strongly in the interviews where the Pathnet group indicated that they felt more marginalized and isolated in the merged company than they did in the organization before the combination took place. With respect to human resource orientation, the Pathnet group did not think that the new company had a high regard for its people as compared to the P.G. Davies group. They felt less than the P.G. Davies group did, that the merged company viewed its employees as a valuable resource and an important contributor to its success. They also felt that it was less committed to the development and training of its people. These feelings and perceptions are not surprising in light of the overall dominance of the P.G. Davies group over the Pathnet one, as discussed previously. Given this fact, it is thus also not surprising that the P.G. Davies staff identified to a significantly greater extent with the merged company than the Pathnet group did. They also felt that management was helpful and supportive and provided clear communication to the staff, unlike the feelings of their Pathnet colleagues. With respect to integration of the combined company and as confirmed by the interviews, the former Pathnet employees were of the opinion that the new company was not operating as an integrated
entity, while the P.G. Davies group did. The latter group also perceived themselves as having a greater degree of freedom and independence in doing their work as compared to the former. Finally the two groups also differed significantly in terms of the reward orientation dimension of organizational culture. As expected, the Pathnet people did not perceive the merged organization to place an emphasis on positively reinforcing behavior, which supports the organization’s objectives as opposed to their P. G. Davies colleagues who did.

The above discussion on the significant differences in organizational culture within and between the two groups both before and after the merger has been undertaken in some detail for two reasons. The first is to bring to the fore the issue of cultural compatibility and secondly, to highlight the implications of culture type in determining organizational outcomes in mergers and acquisitions. With respect to the first, there is no conclusive evidence to verify the commonly held assumption that organizations with similar types of cultures make ideal and unproblematic combinations. Regarding the second reason, financial and strategic reasons are usually considered as much more important than cultural issues in merger \ acquisition decisions, a fact which has been emphasized previously. Consequently, combinations between organizations with different culture types are inevitable e.g. a role culture with a power culture. Of more importance however is the question of how well will the two cultures integrate or how easily will one of the cultures be displaced? (Cartwright and Cooper, 1996).

It must be mentioned that this study has not sought to determine the *type* of culture of each organization involved in the merger \ acquisition viz. power, role, task or support cultures, but has rather generally defined organizational culture in terms of fifteen dimensions. However it is important to realize that the probability of all fifteen dimensions being similar in both organizations before a merger \ acquisition is extremely negligible. Rather, it should be expected that the chances are greater that a merger \ acquisition will witness the combination of organizations with culture dimensions which differ from each other. Thus it is not surprising that the analysis has confirmed a difference in the cultures of Pathnet and P. G. Davies before the merger took place. On
the other hand it is also possible that cultural analysis of two groups could reveal no significant difference in their overall culture i.e. they have a similar culture overall. Nonetheless, the more marked difference in perception of the culture of the merged organization, between the two groups, could be based on two factors. Firstly, the size and dominance of the one group over the other mentioned previously and secondly, the racial differences of the two groups especially when viewed in an historical context.

In concluding this section, it should be mentioned that although organizational climate was not specifically measured as in the case of culture, interviewees from both groups described the climate or atmosphere which prevailed for some month after the merger acquisition as being tense and unpleasant.

5.4 EFFECT ON FINANCIAL PERFORMANCE

The hypothesis on which this research study was based was that only financial or growth factors were considered in the decision to merge acquire. Sufficient consideration was not given to the important issues of organizational culture and human resources management. Table 4.9 indicates that Pathnet had realized a net monthly loss for the six months prior to the merger. Thus, in order to reverse this trend and achieve positive growth, it was important for management to make an acquisition which would make this objective possible. P. G. Davies seemed to be a good choice as it was an established and profitable pathology firm. Given the difficult financial situation that Pathnet found itself in, it is not surprising that other factors such as organizational cultural differences were not considered in the decision – making process. However, as can be seen in Table 4.9 and Figures 4.10 and 4.11, the losses sustained by Pathnet after the merger were even greater than the company had experienced prior to the transaction. Although there may have been other reasons for this unfortunate situation, it seems that organizational cultural differences played a significant role in this disappointing and seemingly unanticipated situation.
As in van der Post’s (1997) case, this study does also not claim to establish a cause–effect relationship between organizational culture and financial performance. It merely describes the trend in financial performance (as defined by the parameters chosen for this study) over a specific time period related to the merger/acquisition. Nonetheless the relationship between organizational culture and financial performance in the case of mergers and acquisitions can also be described in terms of the theoretical framework (see Figure 2.2) used by van der Post (1997).

van der Post (1997) describes four integrative mechanisms by means of which an organization’s culture may influence its performance. These are direction, involvement, consistency and adaptability and innovation. As highlighted by the above discussion, staff from both groups felt that the merged company did not have a properly defined and communicated mission and as such did not provide them with a clear direction and goals. Success is more likely when individuals are more goal-directed and the organizational members collectively work towards a common goal. This was not found to be the case in this study. With respect to involvement, human relations’ theory espouses that organizational performance is a function of the level of involvement and participation of an organization’s members. High levels of involvement and participation create a sense of ownership and responsibility that in turn results in greater commitment to the organization. What we have found and described above is that the staff who had worked at Pathnet prior to the merger felt marginalized and not included in the processes of the organization while the P.G. Davies group did not feel this way. It is possible that this unequal level of employee participation and involvement could have had a negative influence on financial performance. Consistency emphasizes the impact that a ‘strong’ culture can have on performance. As described in the literature review, a shared system of beliefs, values, and symbols widely understood by an organization’s members has a positive impact on their ability to reach consensus and carry out coordinated actions. A strong culture with well-socialized members improves performance because it facilitates the exchange of information and coordination of behavior. As indicated by both the quantitative and qualitative analysis, both groups perceived the new combined company to have a significantly weaker culture compared to their pre-merger company.
A shared system of beliefs and values did not exist between the two groups after the merger as the perception existed amongst some employees that the combined company did not operate as an integrated entity. Integration, which is analogous to shared meaning, also plays a role in organizational performance. Finally, organizations that are able to adapt to changes in their environment and that create conditions that make it possible for their people to be creative and innovative, usually perform better than those that do not. What we have found was that both groups felt more restricted and stifled and prevented from being creative and innovative in the merged company than they did before the merger. This was as a result of stricter rules and regulations and more direct supervision being applied to the employees.

5.5 MANAGING CULTURE

It is clear from the above that, eight months after the announcement of the merger/ acquisition i.e. at the time of conducting the study, cultural integration of the combining companies had not yet been achieved. There may have been several reasons for this situation prevailing including the fact that it may have been too short a time period for any organization to achieve cultural integration. According to Kurt Lewin’s model (1947, in Cartwright and Cooper, 1996:144), change is a three stage process involving (a) the unfreezing of existing attitudes, (b) the introduction of change and (c) the refreezing of new attitudes, development of new group norms and return to stability. A merger can only be considered to have stabilized when a clear, coherent and unitary culture has developed throughout the organization, and when everybody is clear as to the new organizational values and goals, shares and accepts these values and knows what is expected of them. They argue that it is impossible to estimate the exact time-scale within which post – merger stabilization will occur, but it is the point at which problems cease to be attributed as being merger – related, and once again become ‘organizational’ problems. It is obvious that at the time of the study, a unitary culture at Pathnet had not as yet been established and that post – merger stabilization of the organization had yet to achieved.
Cartwright and Cooper (1996:117) state that Barret (1973) has also argued that the ultimate success of a merger or acquisition is determined by the way in which the transition is managed in the early months. According to them it represents a crucial period in which employees will assess the culture of the other and evaluate its attractiveness in comparison with their own. They go on to say that the handling of the merger or acquisition announcement is the first major task faced by those responsible for making the acquisition or merger a success. It is important because it is the primary source of ‘official’ information that the acquired or merged workforce will have about their future and about the culture of the organization they will be expected to integrate with or adopt. Furthermore, it is also important in terms of its content and the manner in which it is communicated. This is so not only in paving the way for change, but also in that it provides an opportunity to allay fears, dispel rumors and introduce the acquirer or other merger partner to its new employees.

The information obtained from the interviews regarding the announcement of, and further communication relating to the merger/acquisition, has been discussed previously. It is probable that the ignorance of most of the workforce from both sides about the organizational marriage, played a major role in the turbulent transition still prevalent at the time of the study. The sudden announcement of the combination in the form of a letter giving employees the option to either accept the new situation or face retrenchment may also equally have contributed to this turbulence. However, surprisingly, this method of handling a merger/acquisition announcement is not unusual. According to Cartwright and Cooper (1996:118), research evidence has repeatedly demonstrated that first impressions are important and powerfully shape attitudes and future behavior. Furthermore, once formed, attitudes and behavior are potentially resistant to change, particularly in a merger, when there is likely to be a lengthy time gap before employees actually confront any actual behavioral evidence which may be inconsistent with their initial impressions and expectations. They further add that despite the widely accepted significance of first impressions in the formation of attitudes, most acquisition
announcements are characterized by minimal information, insensitive handling and poor timing.

With respect to the vitally important managerial process of communication, they say that face to face communication by way of a group announcement or presentation is preferable to the written word and it is better to make the announcement at the workplace, as employees feel more comfortable there. It is also important to avoid ambiguous language in order to dispel rumors and reduce uncertainty. The terms of the transaction must be clearly communicated and a specific individual or group of individuals should be assigned to handle merger acquisition related communication to ensure that it provides consistent and reliable information. Communication should be a regular occurrence even if there is little or no information to communicate. It must be stated that some interviewees did indicate that subsequent to the announcement, a number of meetings were held to discuss issues such as job description, amongst others.

It is also important at the time of the announcement to give employees of both parties the opportunity to form a clear, consistent and realistic understanding of each other’s culture. This is important not only if the intention is to develop a new culture, but especially if the acquired group is expected to abandon or change its culture, as is often the case.

In the weeks following the announcement, management should maintain high visibility, as this is an effective way of maintaining the change momentum. If this is not done, the expectancy of change that has been created will be reduced, thus decreasing the likelihood of any large scale integration or cultural change. At this time joint working parties and inter organizational team building initiatives should also be established. These focus groups should be used to ascertain existing behavioral practices within the acquired organization, as well as employee expectations and concerns. They should also be used as a forum in which to present a realistic understanding of the culture of the acquirer. Similar initiatives should be introduced early in the merger process, prior to any physical integration, and involve employee groups composed of members of both merger partners. If the merger is a collaborative marriage, then this should be emphasized by
allocating an equal number of individuals from each merger partner to any group (Cartwright and Cooper, 1996:128).

As mentioned before, the combination of Pathnet and P.G. Davies involved both a merger and acquisition between different units of the same organization. As revealed by the interviewees, no culture audit or analysis was conducted prior to the merger-acquisition or at least they were unaware of it if it had been conducted. They were similarly unaware of a cultural analysis being performed from the time of the announcement to the time when this study was undertaken.

It should be noted that this discussion on managing culture has been included for the sake of completeness of this report and should not be misconstrued as being critical or prescriptive with respect to the management of the combination process.

On this note, one should perhaps conclude this discussion by listing the elements that should be incorporated into any effective program for culture change or integration as described by Cartwright and Cooper (1996). These are:

1. An understanding of both cultures
2. Unfreezing of the existing culture(s)
3. The presentation of a positive and realistic view of the future
4. The wide-scale involvement of organizational members
5. A realistic time-scale for change or integration
6. A process for monitoring the progress of any culture change or integration, to identify problems before they escalate

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6. CONCLUSION

In concluding this report, two important points must be raised. The first is that, given the disappointing history of mergers and acquisitions, it is recommended that organizations contemplating a marriage should seriously consider employing a recognized merger acquisition model throughout the process. This recommendation is made in a general sense and not specifically directed to the organizations involved in this research project. A number of models are available, a few of which have been described in the Literature Review. An Acquisition Integration Program is also outlined in Cartwright and Cooper (1996). The specific models referred to in the review are the following: The Pathfinder Model of G.E. Capital Services (Ashkenas et al., 1998), The Integrative Merger and Acquisition Model of Finkelstein et al. (1999) and The Ernst and Young Model (1997). A detailed roadmap pertaining to the latter can be found in Appendix D.

The second is that although research studies have been conducted on the effects of mergers and acquisitions on the organizational culture of non – South African companies, there is a paucity of material specifically related to South African companies in this regard. On a similar note, although some work has been done on the association between the organizational cultures and financial performance of listed South African companies, little work has specifically been conducted on the effects of mergers and acquisitions on the financial performance of both listed and unlisted South African companies. In view of this fact, and in order to attach greater significance to this study, further research needs to be done on the effect of mergers and acquisitions on the organizational cultures and financial performance of South African companies. The importance of this must be seen in relation to the country’s sub – optimal productivity and the consequences of this on its economic performance referred to previously.

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8. APPENDICES
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| 13. Reward orientation     | 5  
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|                            | 42 
|                            | 12 | P 
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| 14. Locus of authority     | 3  
|                            | 4  | N 
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| 15. Task structure         | 16 | N 
|                            | 39 | N 
|                            | 13 | N 
|                            | 18 | P |
THE UNIVERSITY OF CAPE TOWN

The Graduate School of Business

Breakwater Campus
Private Bag Rondebosch 7700 Cape
Tel 4061922
Telefax 215693

FROM A MEMBER OF THE MBA PROGRAM

Dear Pathnet staff member,

Thank you for taking the time to complete this questionnaire. The purpose of the survey is to collect data to determine the feelings and attitudes of the staff both before and after the merger between Pathnet Western Cape and P.G. Davies and Associates. The information will be used as part of a research study on the effects that mergers and acquisitions have on the culture and climate of an organization. The research project is being done in partial fulfillment of the requirements of the MBA Program.

The survey is anonymous. Responses cannot be traced to anyone. Please do not write your name on the questionnaire. The free and frank expression of your opinion is required and will be most helpful. There are no right or wrong answers to any of the statements in the questionnaire. It is your opinion on each of the statements that matters. Please respond to each statement by placing a tick in the space that most accurately reflects your opinion regarding that statement (see example below).

The following scale should be used to reflect your feelings regarding each statement:

1 means that you completely or strongly disagree
2 means that you disagree or slightly disagree
3 means that you are neutral or undecided
4 means that you agree or slightly agree
5 means that you completely or strongly agree

Example:

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<th>Neutral or Undecided</th>
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When you have completed the questionnaire, please hand it back to the person in charge of collecting the forms.
Thank you once again for your kind assistance in this research study.
Dear…………………………

Re: Research Study Interview

My name is Faiez Kirsten. I am presently conducting a research study on the effects that mergers and acquisitions have on the culture of organizations that undertake these transactions. I am using the merger between Pathnet Western Cape and P.G. Davies and Associates as a basis for the study. You may have already received and completed a research questionnaire that I have sent to the staff at Pathnet. I however need to collect more information in order to improve the validity and reliability of the results of the study. In addition to the use of questionnaires, another way of collecting data is to conduct interviews with people who have been involved in and affected by the merger or acquisition.

As your name has been included in the interview sample, my request is that you allow me to take up some of your precious time to conduct the interview. This should not take longer than one hour. I trust that you will be amenable to this request and will contact you telephonically to confirm your acceptance (or rejection) of this request.

Please be assured that all information imparted during the interview is strictly confidential and reference to any of the information in the research report will not be linked to any specific person directly by name. All records of the interview, whether in written or tape-recorded form, will be strictly safe-guarded during the research period and destroyed thereafter. This is to prevent the position of any interviewee, or any other persons indirectly affected by the interview or research, to be compromised in any way whatsoever. We do appreciate the sensitive nature of some of the information and opinions that may be shared during the interview.

I thank you in anticipation.

Yours Sincerely

……………………
Faiez Kirsten
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