Organizational culture and post-acquisition changes in management control systems: An analysis of a successful Brazilian case

Ricardo Vinícius Dias Jordão a,b,c,⁎, Antônio Artur Souza d, Ewerton Alex Avelar d

a Pedro Leopoldo Foundation, Brazil
b Center for Advanced Studies in Management and Economics (CEFAGE-UE), Portugal
c Swiss Management Center, Switzerland
d Federal University of Minas Gerais, Brazil

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A B S T R A C T

This paper analyzes the effect of organizational culture on the post-acquisition management control system (MCS) of the Brazilian company Extrativa Metalquímica Inc. after its acquisition by the FASA Participações Group. The results herein reported add to discussions of the subject and contribute to reducing the research gap in this area in Brazil. The analysis supports two major conclusions: (1) changes in the acquired company’s MCS were derived from the new financial results-oriented culture introduced by the acquirer; and (2) the implementation of this culture implied modifications in production, financial and quality controls.

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1. Introduction

Mergers and acquisitions (M&As) involving billions of dollars have become a common phenomenon in the business world in an attempt to face a number of challenges, such as market downturn, governmental reform, technological changes and companies’ need to strengthen their competitive positions (Child, Faulkner, & Pitkethly, 2001; Triches, 1996). This phenomenon has raised academic interest, especially because of the amount of money involved in the transactions, the controversies around the negotiations, and the increasing number of M&As that have taken place worldwide (Camargos, 2008; Costa Júnior & Martins, 2008). Moreover, according to Cartwright and Schoenberg (2006), M&A is a subject that can be studied from the perspective of several disciplines and therefore claims the attention of researchers in a wide range of scientific domains.

From the perspective of organizational economics, M&As are one of the major ways to both promote organizational growth and generate synergies. For instance, Krugman and Obstfeld (2001) claim that acquisitions of transnational companies are a relevant type of foreign direct investment (FDI) and an important part of the international capital flow, which involves not only transferring resources from one country to another, but also moving in on other corporations. A United Nations Conference on Trade and Development’s (UNCTAD) report in 2009 remarks that the number and frequency of transnational M&As have significantly boosted the volume of foreign direct investment at the global level over the last decade (UNCTAD, 2009).

In Brazil, cases of M&As have also grown more significant in the 1990s, increasing from 186 occurrences in 1990 to 325 in 1999 (i.e., an aggregated growth of 5.7/year, a number substantially higher than several other economic rates in the 1990s) (Rossetti, 2001). According to a Pricewaterhouse&Coopers (PWC) (2012) report, the amount of M&As increased in the 2000s until a decrease in 2008 and 2009 as a result of the international crisis. However, the numbers have been increasing in the most recent years: in 2010, with the market recovery climax, there were 797 M&A operations, followed by a slightly reduced figure in 2011 (PWC, 2012). In a similar way, KPMC’s (2012) research on M&A shows that this arrangement remained strong in Brazil in the first quarter of 2012 (204 operations in total). This result is pointed to as the best for a first quarter in a historical trend analysis since 1994 (KPMC, 2012).

A 2000 UNCTAD report also shows that in the 1990s over 96% of the transnational M&As were in fact acquisitions (UNCTAD, 2000). Despite the use of the expression M&A, acquisitions have increasingly become more common than mergers (Camargos, 2008). In stricter terms,
mergers stand for a friendly arrangement involving two or more companies of similar size and power, whereas acquisitions stand for an either friendly or hostile deal in which one company takes over another and makes most of the decisions for it. Alongside the increased number of acquisitions taking place worldwide, given the great expectation of value creation for the acquiring company, is the high rate of unsuccessful cases (Child et al., 2001), particularly because the great complexity of putting two or more companies together usually reduces the chances of adding shareholder value (Camargos, 2008). Over 50% of the transactions are incapable of accomplishing the objectives that were set prior to the acquisitions, mostly because of poor or non-existent post-acquisition management, that is, there are no measures, or very poor ones, to implement suitable changes in the target companies as well as to seize control of them and integrate them to the acquirer (Child et al., 2001). Post-acquisition management is a comprehensive term that refers to the process the acquirer adopts to promote changes in the acquired companies, the type of changes introduced, and the measures taken to both integrate and control the acquired companies (Child et al., 2001).

Post-acquisition management is a mechanism to increase managerial efficiency in the introduction of post-acquisition changes and in the consequent integration of the companies for achievement of the expected results (Child et al., 2001). Such management has a great potential to reduce turbulence in the clash of two different cultures (that of the acquiring company and that of the acquired one).

The acquirers’ features tend to interfere to a greater or lesser extent in the target companies’ life, since this process implies the introduction of new work methods and new follow-up and control systems (Barros, 2003). Moreover, the design of the post-acquisition management control system (MCS) can be constantly reviewed as organizational changes take place in the acquired company, which can particularly improve plan execution and achievement of the expected results.

The companies’ levels of dissatisfaction with the results of M&As in Brazil have been substantially lower than those found in other countries. Whereas lack of integration of the companies’ cultures, processes, and systems have been reported as the major causes of unsuccessful M&As in Brazil, M&A success has been pointed out by over 75% of the Brazilian managers as the result of suitable control systems, human resources management, and promotion of cultural integration (Barros, Souza, & Steuer, 2003). Drawing on two of these success factors, this paper analyzes the effect of organizational culture on the post-acquisition MCS of the Brazilian company Extrativa Metalquímica Inc. (henceforth EMSA) after its acquisition by the FASA Participações Group (henceforth FPG). More specifically, this paper reports on the results of a case study focusing on this Brazilian company and shows the impacts of the acquirer culture on the MCS changes and the post-acquisition management practices.

This study presents the main MCS approaches and argues for the influence of both acquisition operations and companies’ culture on the post-acquisition management control system. According to Child et al. (2001), in spite of the great numbers of M&As, there are no studies clearly explaining the relationship between MCS, company culture, and post-acquisition management. However, as the authors contend, the administration usually faces the challenge of implementing the MCS and any other measures necessary, as much as possible, to assure the achievement of the pre-acquisition goals and minimize the cultural clash between acquiring and acquired companies. Even considering that authors such as Lodorfos and Boateng (2006), Child et al. (2001), Barros et al. (2003), Calori, Lubatkin, and Very (1994) and Larsson and Lubatkin (2001) have explored the rules of organizational culture for acquisition purposes, few studies have focused on the effects of this culture upon the post-acquisition MCS.

Additionally, despite the great relevance of the topic as stressed by such authors as Granlund (2003), Jones (1985a,b) and Child et al. (2001), the lack of studies focusing on the effects of company culture upon the post-acquisition management and the post-acquisition control rules, especially in Brazil, has hindered the development of solid theories and models. In this context, the results herein reported advance discussions on the subject and contribute to reducing the research gap in Brazil and worldwide.

On the one hand, this approach can shed light on the design and use of MCS, which, along with the organizational functions, are usually subject to significant changes in most of the acquisition processes (Jones, 1985b). On the other hand, this approach can provide a meaningful account of the effects of organizational culture on the post-acquisition MCS, a phenomenon still inadequately studied despite the great number of acquisitions worldwide (Calori et al., 1994; Child et al., 2001; Larsson & Lubatkin, 2001).

2. Management control systems and culture in acquisitions

As it is the basis for plan implementation and the accomplishment of managers’ and stakeholders’ objectives, the MCS can be seen as a facilitating mechanism in the execution of corporate strategies and, as such, one of the major components in the managerial process. An MCS aims at promoting a company’s success by encouraging broad employee engagement in the management process as a means of accomplishing both individual and managerial objectives (Gomes & Salas, 1997). From a strategic perspective, an MCS is a means to gain a competitive position; and from an organizational perspective, it is a means for both organization and employees to focus on the objectives of the administration. A meaningful issue in the study of MCS is culture, but this had been neglected up to the 1970s, even though the term had been previously and widely applied in studies within several other areas.

One of the pioneers in the study of organizational culture effects on MCS, Hofstede (1978) suggests that the MCS should be based on self-control-oriented, quasi-autonomous groups in order to be capable of adjusting to the most varied managerial needs. Such a model gives great importance to (1) employees’ goals, which can eventually combine with and serve managerial purposes, (2) negotiation as the system guideline, and (3) ongoing correction of errors throughout the operational and managerial process. Hofstede (1978) says that such errors generate sunk costs and claims that feedback-based adjustments can only be carried out on the basis of the final results. Moreover, the author assumes that the MCS conception should build on political variables, cultural values, managerial judgment, and negotiation. Therefore, controls must be flexible enough to unfold in accordance with the demands posed by a number of different situations and contexts. In other words, every company should conceive of its own MCS design with reference to its own goals, values, and ways of coping with changes in the business environment.

Companies are reportedly influenced by cultural differences across the countries and geographic regions where they operate (Barros & Rodrigues, 2001). Since culture is a value system developed throughout time that orients people’s attitudes and since human behavior usually derives from the values and meaning schemes shared within groups (Barros, 2003), the analysis of corporate culture offers insights into the symbolic meaning of various daily practices and actions. For instance, Steil and Sanches’ (1998) investigation of organizational commitment as a control tool showed that cultural controls are a particular way of spurring the internalization of organizational values. According to the authors, whenever the individual’s expectations are embedded in managerial goals, the individuals are keen on both regulating themselves and encouraging themselves and their workmates to achieve the expected results and obtain the pre-established compensations.

The importance of cultural considerations throughout the MCS development process seems to be even more evident in M&A operations. As Cartwright and Schoenberg (2006) claim, culture can be considered an emerging topic in the M&A literature, and as Weber and Camerer (2003) stress, culture is a crucial element underlying or accounting for most M&A failures. The latter authors sustain their claims drawing on
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