



## Corporate Culture Can Break (or Make) a Merger

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Among concerns raised by industry analysts who are tracking Hewlett-Packard's proposed acquisition of Compaq is the thorny question of corporate culture.

Hewlett-Packard, founded in Palo Alto in 1939, has long been famed for the "HP way," its much-touted corporate culture which fosters innovation by giving employees autonomy and opportunities for professional growth. Compaq's image is very different: *Newsweek*, while terming HP "literally the original high-tech garage startup," describes Compaq's 1982 origins as "reflecting the giddy period when PCs were busting out."

*BusinessWeek* notes that Compaq has been viewed as "a mere purveyor of hardware" and that the employees it will be contributing to the deal will be mostly lower-paid computer-repair people. The merger announcement led Slate.com to wonder: "If HP Swallows Compaq, Is It Still HP?"

Can a mega-company absorb another mega-company and still run things the way it used to? Should it even try? How large does corporate culture loom in the high-tech sector, or in any industry? Is there one type of culture that holds the key to success? And how important is the smooth blending of two distinct corporate environments to the success of a merger or acquisition?

"HP has generated a lot of enthusiasm and energy from their employees because the company has recognized their individual achievements and given them broad opportunities for individual growth," says Wharton management professor [Nancy Rothbard](#), noting that HP's corporate culture has up until now made it an industry leader. "That's also important for retaining people. Even in a tighter labor market when it might seem like keeping employees isn't as important, it still has a huge value because bringing in and training new employees can be so costly. The HP way continues to be useful in today's environment." HP, Rothbard adds, should be sure to handle the innovators in the newly-merged company with kid gloves because "in the technology business, innovation is the ultimate survival game."

Rothbard also cites the capacity for change as an important element in successful companies. "A culture that is adaptable - both to market conditions and to the firm's leadership - will help a company survive and grow long-term. Consider GE, where Jeff Immelt is in the process of taking over for Jack Welch. He's not Jack Welch - he won't be able to lead in exactly the same way - but hopefully the culture is adaptable enough to his leadership style that he will have the chance to be effective."

Wharton management professor [Peter Cappelli](#), director of the school's Center for Human Resources, believes that corporate culture is most effective when it is aligned with a firm's business strategy. "If you are making widgets or producing hamburgers, basically doing the same thing over and over, an approach like the HP way isn't helpful at all." And in various kinds of low-cost manufacturing like the textile industry, the business is so highly cyclical, cost-driven and variable that companies can't afford to protect their employees.

"But if HP is trying to do what it's always done," says Cappelli, "which is create innovative products and not necessarily low-cost products, then preserving the HP way makes sense. The interesting thing about HP is that they have always tried with great care to make what they were doing in the product market align with how they managed their people. They buffered employees from the ups and downs of the business, because they wanted long-term commitments from those who had been working with the products over time and understood all the ins and outs. Compaq doesn't have the same approach."

Patti Hanson, a human resources consultant with FBD Consulting based in Leawood, Kansas, points out that there are limits to how entrepreneurial and innovative a firm can be - especially a firm the size of a merged HP and Compaq. "Certainly you have to have some entrepreneurial spirit; if you don't in



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high-tech, you'll be obsolete in no time. Yet if you're totally that, and don't have the structure or discipline to figure out how to set goals and meet budgets, you won't be successful either." Hanson suggests that this failing was what brought down many of the dot.coms. "I think you have to watch both sides of the house."

Ultimately, though, high-tech firms can succeed with either an entrepreneurial or a structured approach, but not both, Hanson says. "One group might say, 'Ask first, then do it if it's approved at all levels while the other group says, 'Do it, then ask for forgiveness.' That creates problems. A high-tech company I used to work for was pretty entrepreneurial and allowed a lot of risk-taking. We would roll out a new process just with an email and six steps to follow. One executive we hired from a highly structured company would say, 'Aren't there going to be operations manuals and train-the-trainer classes?' I'm not saying one is right and one is wrong. You just need to make sure everybody is marching to a similar tune."

[Mauro Guillen](#), professor of management and sociology, questions the whole notion of discussing a company's overall culture. "If you are specifically talking about the parts of HP that have to come up with new products and figure out how to sell them, then the HP way is probably the best. But I am skeptical about generalizations that any Fortune 100 company operates under a specific culture. R&D people are probably organized very differently than in operations, and production people differently than in marketing. They are dealing with distinct problems, time pressures and external constituencies. Yet the company needs to act as if it were one organization. This is a huge problem not just for HP but for all firms." Guillen says that a merger then greatly complicates the already complicated task of integration. For example, the cultures of two different firms' marketing departments may not only be organized differently from each other, but will have developed their own idiosyncrasies over time.

"Effecting change in a strong, decentralized culture like HP requires power and energy from the top, because there will probably be a lot of resistance," says Rothbard. "And because the culture is decentralized, you can't anticipate where the resistance will come from and proactively target it. HP is spending significant time right now managing its external constituencies such as stakeholders and institutional investors. That's absolutely critical, but they should also think about drumming up support internally."

Culture clashes can be a surprisingly large stumbling block in creating profitable mergers, adds Hanson. She cites a recent study sponsored by the Society for Human Resource Management and conducted by Towers Perrin that was titled "Making Mergers Work." In the study, HR professionals listed "incompatible cultures" as among the biggest obstacles to success in mergers and acquisitions. "The companies may go in and do due diligence, look at all the financial matters, but it's really the cultural and people issues that can mean the demise of a successful merger."

She offers examples of incompatible cultures. One is structured vs. entrepreneurial, requiring written processes as opposed to "winging it." Another is formal vs. informal, having strict rules for attire, chain of command and obtaining approvals, while another company allows employees to wear khakis and has an open-door policy. Centralized vs. decentralized can also cause problems: Does corporate make and hand down all the decisions, or can managers respond at the local level to individual clients? And a company focused on producing good value at a low price won't combine well with one focused on asking higher prices, but tailoring their solutions to clients' needs.

With the merger, HP reportedly aims to move away from products to focus more on providing services. Will its corporate culture, in addition to successfully absorbing Compaq, need to undergo a paradigm shift? Most of the professors agreed that HP would have to thoroughly transform itself to make it in the service sector - an effort not necessarily facilitated by the merger. "I'm not quite sure how this merger will help them get into services," says Rothbard. "HP tried to buy PricewaterhouseCoopers last year explicitly to get their expertise in services. One reason the deal fell through may have been HP's realization that PwC's business was so different from theirs that it would be really hard to implement. Maybe they are hoping with Compaq and a new economy of scale, they can grow in the services area in a more incremental way."

"Innovation in product is not the same thing as delivering services," Cappelli says. "There are competencies and capabilities you need to be a service-sector, customer-service-oriented organization. It

requires more sales emphasis, for one thing. That's not necessarily the most obvious fit with the competencies HP has had before." Guillen agrees. "A typical plant manager has very different problems confronting him or her during the day than a manager of a service operation, who has to think about ways to increase customer loyalty, create bundles of services to offer and so forth. The world of manufacturing is so different from the world of customer relationships, that it seems the leadership style and culture need to change as well."

Who initiates the cultural sea changes that may be necessary when a company absorbs another company and also tries to change course? Rothbard believes a lot depends on who is at the helm. "Research suggests that effective corporate culture change happens most often with a CEO who comes in as an outsider to the firm, or as an unconventional insider - somebody who has had a reputation all along for being different. For example, when IBM CEO Lou Gerstner was at American Express, he was the outsider coming in. (He had previously been at McKinsey, where his main client had been AmEx.) And at GE, Jack Welch was the unconventional insider. He grew up in GE's plastics business, a newer, non-mainstream part of the business. They could be change agents because they weren't bound by the tradition." She notes that HP's CEO Carly Fiorina, an outsider to the firm, seems to have been trying to alter HP's culture - to make it more centralized -since long before the merger was announced.

In any case, Rothbard says, "merging corporate cultures is a difficult process that doesn't happen overnight. And it requires a tremendous amount of initiative from the firm's leadership to make it happen."

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