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## 1.2 Problem

Companies are currently contributing to CSR through numerous activities, individual CSR programs and initiatives that contribute to the company's stakeholders' needs, interests and demands (Sprinkle & Maines, 2010). At the same time companies are engaging into M&As to grow and expand the business rapidly. Yet, over half of the performed mergers and acquisitions are reported to fail (e.g. Bauer & Matzler, 2014) due to a strong focus on, for instance, financial issues causing organizational culture to remain as a neglected issue. This may lead to a situation where cultures of the joining companies do not align, instead, lead to a cultural collusion (Schraeder & Self, 2003). As organizational culture defines the proclivity and ability of a company to conduct business operations either responsibly or irresponsibly, questions concerning the hereafter of CSR in the context of M&As have become interesting.

## 1.3 Aim

The aim of this study is to find out how the M&A process impacts CSR through organizational culture. In order to reach the aim the following research questions are to be answered:

- *How was organizational culture considered in the acquisition process?*
- *How, if at all, has organizational culture in the acquiring firm transformed as a result of the acquisition?*
- *How, if at all, has CSR transformed as a consequence of the acquisition?*

## 1.4 Delimitations

Existing literature often addresses M&As jointly and infrequently distinguishes them from each other. As the case study company for this thesis conducted an acquisition, this study will provide insights to the research aim and research questions from the perspective of an acquisition. Yet, the theoretical perspective of this study comprises of literature that does not distinguish mergers and acquisitions from each other.

This thesis concentrates on CSR and corporate culture in the acquisition process therefore the financial success concerning the outcome will not be addressed. Addressing these issues in this study would bypass the aim of this study and would not bring any additional value to conclusion. Also the motivation or the strategic decision to merge or acquire will not be

studied. The motivation to merge or acquire are not relevant issues concerning the aim of the study. In addition, information concerning the financials and the strategic issues can be considered sensitive to the companies and might be very difficult to access.

The stakeholder group that will be interviewed for this study is limited to the employees of the acquiring company. Therefore, other stakeholders such as possible customers or suppliers will not be interviewed. This information would not bring any significant additional information concerning the analysis or conclusions because this study has a company perspective and often the issues concerning the M&A process are kept within the company and consumers and suppliers are being communicated about other issues than the integration of corporate culture and conflicts in corporate culture. If this study had an external stakeholder perspective then interviewing customers or suppliers would give the desired outcome.

For this study the choice of interviewed company is limited to a large company. Small companies can sometimes be characterized as the brainchildren of the founders of the companies. The CEO can be the founder of the company while also being the chairman of the board. In such situations company culture may align with the personal opinion and judgment of one person on values, beliefs, assumptions, ideologies and ways of doing things. According to Stewart *et al.* (1999) entrepreneurs can be divided into entrepreneurs and small business owners. Entrepreneurs are focused on profit and growth of their ventures that is achieved through strategic planning (*Ibid*). Small business owners are more focused on providing for their families and the company often represents an extension of the owner's personal goals (*Ibid*). Studying corporate culture and CSR in M&A situation in small companies would potentially give an impression of the personal attitudes of the small business owners towards CSR.

## 1.5 Outline

This study comprises of seven chapters. Chapter one introduces the research problem, aim and research questions. Additionally, the delimitations of this study are addressed. Chapter two gives an overview of literature and presents the theoretical framework for this study. The third chapter presents the research method used in this study and explains why such choices were. Furthermore, reliability and validity of this study are discussed and research ethics is addressed. Chapter four provides an empirical background for this empirical study. First an overview of CSR in the Finnish context is given and then a general introduction of the case study company is provided. The CSR and social responsibility practises of the case study company are also reviewed. The fifth chapter gives an outlook of the empirical study. The chapter starts with an introduction of the acquisition, then organizational culture in the acquisition is covered and finally CSR is reviewed in the acquisition. Chapter six contains analysis and discussion based on the results presented in chapter five. Finally, chapter seven compiles results of this study.

## 2 Theoretical framework and literature review

This chapter presents relevant theories and models to the research topic at hand. Simultaneously, literature is viewed regarding the research topic. First mergers and acquisitions are introduced and then an introduction to organizational culture and CSR are provided. Additionally, the role of organizational culture in M&As is established and the connection between CSR and organizational culture is clarified. A theoretical synthesis concludes this chapter by gathering the theories and models that will be used in latter parts of this study.

### 2.1 Mergers and acquisitions as organizational change

”Actions taken to expand or contract a firm’s basic operations or fundamentally change its asset or financial structure...” is how DePamphilis (2005, 5) refers to corporate restructuring. This refers to diverse activities that range from reorganizing business units to takeovers and divestitures (DePamphilis 2005, 5) supplemented by mergers and acquisitions (Bowman & Singh, 1993). A merger is a process where a new legal entity is established from the assets of two separate companies (Buckley & Ghauri, 2002, 1). An acquisition can be determined as a transfer of the controlling ownership of a company to another (*Ibid*). In an acquisition the acquirer company continues to exist as a subsidiary, whereas, a merger leads to the formation of a new entity that can lead to the ceasing of one or both of the merging firms (DePamphilis, 2005, 6). Both mergers and acquisitions can realize between domestic companies or across borders.

M&As are known as strategic decisions (Schmid et al., 2012; Meckl, 2004; Buckley & Ghauri, 2002, 1) to pursue for competitive advantage (Caiazza & Volpe, 2012; James, 2002). The motives for M&As are generally discussed within literature. The main motives culminate around maintaining or increasing the company’s market share and increasing shareholder value (e.g. Nguyen & Kleiner, 2003; Schraeder & Self, 2003).

Within literature authors define the M&A process in various ways and use versatile terminology to denote to the process and the stages. For instance, DePamphilis (2005, 134) divides the M&A process into planning and implementation stages and several sub activities. Meckl (2004) views M&A as a distinct process. The tasks and contents of the process are varying and specific in nature (*Ibid*). Meckl (2004) divides the process in three phases; preparatory, transaction and integration. Figure 1 elaborates this division and states the main activities of the phases and the demands on the organisation.

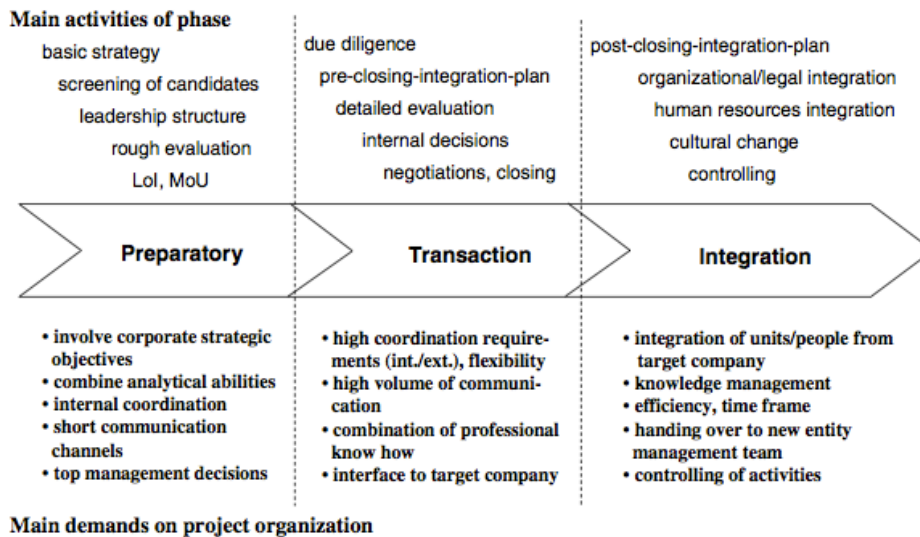


Figure 1. The Three phases of the M&A process (Meckl, 2004, 457).

The integration process can be characterised as fitting the capabilities of the merging companies together to use the existing capabilities efficiently (Epstein, 2004; Datta, 1991). In figure 1 the main activities in this phase include implementing a post-merger plan, integrating the organizations and the HR departments and initiating a cultural change and controlling all the processes. The integration phase is one of the critical phases of the M&A process (Kato & Schoenberg, 2014).

Cartwright and Schoenberg (2006) identify M&As as a complex phenomenon. Consequently, researchers have indicated a wide interest to the phenomenon and studied it from a comprehensive perspective of management disciplines. The management discipline has been studied from financial, strategic, behavioural, operational and cross-cultural aspects (Cartwright & Schoenberg, 2006) and the conducted research indicates a growing interest to the cultural aspect of M&As.

Similarly, a high failure rate that indicates the failure of over half of the implemented M&As has been acknowledged among researchers (Bauer & Matzler, 2014; Teerikangas & Very, 2006; Nguyen & Kleiner, 2003; Buckley & Ghauri, 2002). Poor cultural fit or inadequate cultural compatibility have been identified among some of the contributors for M&A failures (Cartwright & Schoenberg, 2006). In addition, Nguyen and Kleiner (2003) list inadequate managing of the process, lack of clear strategy and vision and communication delays as other contributors for M&A failures. More specifically, the cultural factors seem to be overlooked in the decision-making process (Weber & Tarba, 2012; Marks & Mirvis, 2011; Stahl & Voigt, 2008). Therefore, next organizational culture will be addressed in connection to the merger and acquisition process after a careful conceptualization of organizational culture.

## 2.2 Organizational culture

This section provides an introduction to organizational culture as a research field and gives conceptualizations of organizational culture. Additionally, organizational culture is connected to M&As.

### 2.2.1 Introduction to organizational culture

In literature organizational culture is interchangeably addressed as corporate culture. A common observation among researchers is the fact that there is no exact definition or consensus of the definition of organizational culture (Weber & Tarba, 2012; Brown, 1998, 7; Deshpande & Webster, 1989). Alvesson (2002, 3) recognizes enormous variation in the existing definitions. The reason for such variation comes from the abundance of scientific disciplines and conducted research related to organizational culture (*Ibid*). Therefore, the field is heterogeneous (Alvesson, 2002, 3; Ouchi & Wilkins, 1985).

Previously, culture was not seen as a contributor in an organization (Deshpande & Webster, 1989). In the mid 1970s, an interest towards the concept of culture accompanying organizational functioning emerged, because, the traditional organization models did not explain the inconsistencies between the desired organizational goals and the actual outcomes (*Ibid*). A boom in corporate culture research can be detected in the early 1980s (Alvesson, 2002, 6). This can be connected with the advancements in production technologies and the demands for more efficient organizational structures, as well as, with the need to incorporate the employees changing values and life-styles to align with company values (Alvesson, 2002, 7). Nowadays contemporary organizations consider corporate culture as a crucial issue, however, a deeper understanding of corporate culture is lacking (Alvesson, 2002, 1). Therefore, organizational culture remains as an interesting topic among academics and practitioners (Alvesson, 2002, 6) and is a key area of management and organizational studies (Alvesson, 2002, 14).

### 2.2.2 Defining organizational culture

Schein (1984) refers to organizational culture as “...*the pattern of basic assumptions that a given group has invented, discovered, or developed in learning to cope with its problems of external adaptation and internal integration, and that have 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*”. Similarly, Alvesson (2002, 3) describes organizational culture as an umbrella concept because it encompasses cultural and symbolic phenomena together with values and assumptions about social reality. It is a factor that clarifies behaviour, social events, institutions and processes and gives them a meaning (Alvesson, 2002, 4). In short, symbols and meanings are in the focus when seeking a clarification for organizational culture (Alvesson, 2002, 3). Alvesson (2002, 14) further elaborates Schein’s conceptualization of organizational culture by referring to organizational culture as a phenomenon that requires a deeper-level understanding, non-conscious set of meanings, ideas and symbolism. Interpretation and deciphering are essential in conceptualizing organizational culture, however, there is no formula or model for such activities (*Ibid*). In other words, there is no actual model or exact definition for organizational culture that can be applied uniformly.











responsibility (further addressed as CSR)<sup>1</sup>. CSR as a concept has especially been thoroughly discussed, defined and criticised (*Ibid*). Regardless of this, CSR is a concept that still remains without one universally accepted definition (Dahlsrud, 2008; Whitehouse, 2006), on the contrary, literature offers diverse conceptualizations (Jamali, 2008). Some researchers even refer to CSR as a difficult concept to define (Peloza & Shang, 2010). Matten (2006, in Henningfeldt *et al.*, 2006, 4) mentions the plethora and heterogeneity of actors, such as political actors, practitioners and academics, involved in the CSR world as a key contributors for the diverse conceptualizations of CSR. Corporate sustainability is an adjacent term to CSR and it is often used interchangeably with CSR (Sprinkle & Maines, 2010; Marrewjik, 2003).

Dahlsrud (2008) investigated 37 different definitions of CSR and identified five evident and central dimensions to CSR among the definitions - stakeholder, social, economic, voluntariness and environment. This outcome supports the fact that a company has also other than solely economic responsibilities. Dahlsrud (2008) uncovered that the most commonly cited definition of CSR is constructed as "*A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*" by Commission of the European Communities (2001, 6). In a narrow sense a stakeholder represents a group or an individual who the company has an influence on through operations (Freeman, 1984, 46). Thus, as an example people, employees, customers, neighbourhoods, organizations, societies and the natural environment all represent stakeholders to various companies (Mitchell *et al.*, 1997). The stakeholder approach will be further addressed in the following section.

The reasons why companies decide to engage in CSR are diversified. Galbreath (2010), Sprinkle and Maines (2010) and Falck and Heiblich (2007) comprehend CSR as a strategic dimension. Achieving long-term profitability and cost savings, avoiding negative publicity, employee motivation and retention, increasing consumer appeal, attracting investors and achieving acceptance from the society are just some reasons why companies engage into CSR (Sprinkle & Maines, 2010). Porter and Kramer (2006) also recognize CSR as platform for opportunity and innovation. Often the reasons why companies engage in CSR can be divided into economic, managerial, ethical and political drivers (Matten, 2006, in Henningfeldt *et al.*, 2006, 40). Content customers and employees and the wellbeing of the surrounding community contributes positively back to the company (*Ibid*, 9). Therefore, CSR also translates as a value adding activity for both shareholders and stakeholders (Peloza & Shang, 2010). Porter and Kramer (2010) introduce a creating share value (CSV) concept that further emphasizes the interconnected relationship of "*... practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates*".

The actions that create added value and contribute to CSR are very diverse. Companies also tend to choose their CSR activities according to their stakeholders to maximize their benefits (Spiller, 2000; Lamberti & Lettieri, 2009). Fair employee compensation, employee safety, green production practises, policies, declarations against animal testing, creating codes of conduct for cooperating partners, philanthropy and anticorruption practises are amongst the diverse set of CSR actions (Malik, 2014; Sprinkle & Maines, 2010). These actions are

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<sup>1</sup> Accordingly, in latter parts of this study terms such as CSR, social responsibility and corporate responsibility are used interchangeably.

regularly communicated and represented in annual CSR reports and on company websites (Belz & Peattie, 2012, 33).

The diversity of the CSR definitions also reaches to the theoretical grounding of CSR. As stated above a company has also other than economic responsibilities. This view is supported by the triple bottom line (TBL) thinking by Elkington. The TBL thinking aligns that a company has social and environmental responsibilities in addition to the traditional economic responsibility (Matten, 2006, in Henningfeld *et al.*, 2006, 27). Furthermore, another frequently cited model of CSR is the Four-Part Model of Corporate Social Responsibility by Carroll. Authors such as Jamali (2008), Matten (2006, in Henningfeld *et al.*, 2006, 6) and Garriga and Mele (2004) bring up the model as a traditional conceptualization of CSR. It regards CSR as a multi-layered pyramid concept complemented by interrelated and consecutive responsibilities – economic, legal, ethical and philanthropic (Matten, 2006, in Henningfeld *et al.* 2006, 6). After all, these two theoretical approaches already portray the multifaceted theoretical grounding for CSR. The most commonly connected theoretical framework to CSR is stakeholder theory (Jamali, 2008; Matten, 2006, in Henningfeldt *et al.*, 2006, 16). Stakeholder theory will be examined closer in the next section.

### **2.3.2 Stakeholder approach**

Stakeholder as a concept was introduced for the first time in literature in 1963 (Freeman *et al.*, 2010, 30). It wasn't until the mid 1980s when the stakeholder discussion activated due to Edward Freeman's publication in 1984 (Jamali, 2008). Authors such as Jamali (2008) and Donaldson and Preston (1995) consider Freeman as an important contributor to the stakeholder literature. Consequently, Freeman (1984, 46) defines a stakeholder as "...any group or individual who can affect or is affected by the achievement of the organization's objectives". Mitchell *et al.* (1997) further elaborate stakeholders to comprise of, for instance, customers, employees, suppliers, government, local communities, environmental organizations and environment.

The stakeholder approach steps away from Friedman's idea of profit maximization and incorporates the needs and interests of non-profit stakeholders to management visions (Mitchell *et al.*, 1997). This leads to an alternative way of organizing the organizational responsibilities (Jamali, 2008). Mitchell *et al.* (1997) separate stakeholder approach and stakeholder theory with the distinction that stakeholder theory aims at determining which stakeholders should be considered important to the company, whereas, stakeholder approach concentrates on incorporating additional responsibilities to the company's agenda than merely profit maximization for shareholders.

The stakeholder model in Figure 5 portrays the two-way relationship between the company and the stakeholders and places the company in the middle. As the responsibilities of a company are extended to incorporate the rights and need of the stakeholders the management style has to adapt to the new responsibilities (Crane & Matten, 2004, 53). Figure 5 introduces a simple stakeholder model, however, stakeholders may have responsibilities and duties to their own set of stakeholders and other stakeholders of the firm. Therefore, the stakeholder relationships can be described to occur additionally in a network pattern (Crane & Matten, 2004, 52). This inherently imposes challenges to the management approach.

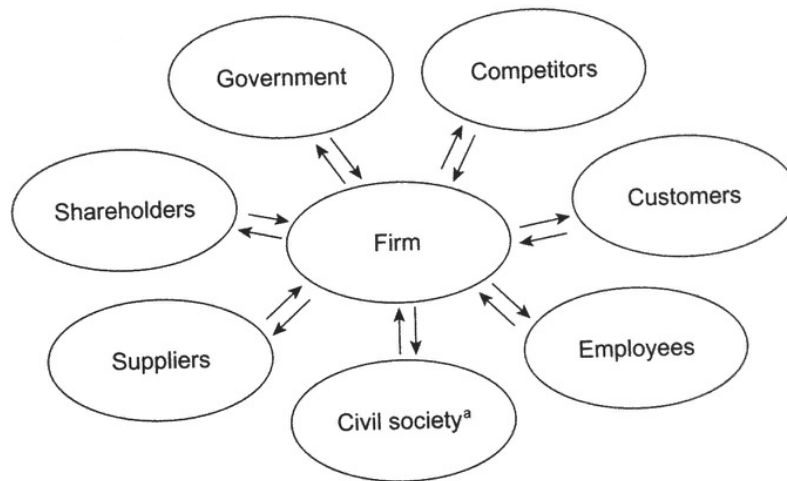


Figure 5. Stakeholder theory of the firm (Crane & Matten, 2004, 51).

Freeman *et al.* (2010, 23) denote that the underlying idea of stakeholder theory is that the success of the company is linked to how well the company manages its relationship with the diverse group of stakeholders. Therefore, stakeholder approach has evolved from the recognition of stakeholders to managing them (Donaldson & Preston, 1995). Smudde and Courtright (2011) identify sustaining and improving the stakeholder relationships as the main tasks of stakeholder management. They also denote that effective communication is a tool for fulfilling these goals. Consequently, we can notice that the stakeholder approach has transformed from stakeholder management to managing the relationship between the stakeholder and the company by utilizing communicative means. Consequently, effective communication is the main tool for relationship building, sustaining and strengthening (Smudde & Courtright, 2011).

### 2.3.3 Corporate social responsibility and organizational culture

Literature provides an unclear theoretical foundation for a sustainability-oriented organizational culture (Galbreath, 2010; Linnenluecke & Griffiths, 2010). Despite of the vagueness a connection can be determined between CSR and organizational culture. Therefore, this section pursues to clarify the current setting.

Organizational culture reflects the personality or the feel of the company through entrenched values, beliefs and assumptions (Galbreath, 2010). These are espoused and manifested through employee behaviours and decision-making, in addition, they define the proclivity and ability of a company to conduct business operations either responsibly or irresponsibly (Kalyar *et al.*, 2013; Melo, 2012; Galbreath 2010). Therefore, the orientation of the organizational culture influences the company's tendency towards CSR and sustainability (Kalyar *et al.*, 2013; Galbreath, 2010).

Maignan *et al.* (1999) mention that organizational culture can be divided into three different dimensions – market, humanistic and competitive. In humanistic cultures attention is directed to people, teamwork, sensitivity and cooperation (Kalyar *et al.*, 2013). This demonstrates as concern and interest towards the needs, interests and demands of external stakeholders, instead of solely pursuing one's own needs (Galbreath, 2010). As humanistic cultures are responsive to stakeholders' concerns, it is logical to assume that companies, which

incorporate a humanistic approach to culture, perform well in terms of sustainability and CSR (Melo, 2012; Ralston, 2010; Maignan *et al.*, 1999).

As CSR and sustainability are multifaceted concepts, organizational change and adjustment are needed to create an organizational culture that aligns with CSR and sustainability (Linnenluecke & Griffiths, 2010; Cramer, 2005), in other words, a culture of sustainability (Galpin *et al.*, 2015). Cramer (2005) further individualizes that development of new shared values, norms, attitudes and a strategic embedding incorporating the triple bottom line thinking of CSR are required when CSR is integrated to a company. In other words, organizational culture should develop and take a more humanistic approach to align with CSR and sustainability.

For a comprehensive organizational culture change and adaptation, the change is required at different levels of organizational culture (Galpin *et al.*, 2015; Linnenluecke & Griffiths, 2010). This view is compatible with Schein's (1984) model of the different levels of organizational culture. The model determines how organizational culture evolves, changes and familiarizes within the organizational members (see figure 3 in section 2.2.1 for clarification). Galpin *et al.* (2015) also identify Schein's (1984) multi-layered structure and the complex nature of organizational culture. Galpin *et al.* (2015) introduce a model of comprehensive culture of sustainability that can be regarded as a blueprint for leaders aiming at creating a culture of sustainability and CSR within an organization. The model is relatively linear and aligns with Schein's (1984) model of the different levels of organizational culture.

According to the model, sustainability has to be incorporated and embedded into the strategic management processes of an organization (Galpin *et al.*, 2015). Meaning that sustainability has to be rooted into the mission statement, organizational values and behaviour, organizational goals and functional strategies of an organization so that all these organizational aspects complement each other (*Ibid*). After the strategic direction of a company is set, the change should extend to the management approach to HR management practises and more specifically the HR value chain (*Ibid*). After all, it is the employees who express the changed values, beliefs and assumptions through their behaviour and decisions (Galbreath, 2010). As a final remark, regardless of the fact that the comprehensive culture of sustainability model has relatively linear steps, the process can be characterised as rather iterative (Galpin *et al.*, 2015). This means that the different steps ought to be revised continuously to assure the development of a company's sustainability efforts according to the development within the sustainability field (*Ibid*).

Due to the multi-layered structure and complexity, leaders play an important role when initiating a cultural change in a company and creating a culture of sustainability (Galpin *et al.*, 2015; Linnenluecke & Griffiths, 2010). Especially senior or top management are identified to have a crucial role in inducing changes regarding sustainability (Galpin *et al.*, 2015; Stoughton & Ludema, 2012). They are in a position to deploy sustainability within companies by aligning sustainability into the company's mission, values and goals (Galpin *et al.*, 2015). Furthermore, the top management has a role in creating and emphasizing sustainability priorities and communicating and accentuating CSR or sustainability internally and externally (Stoughton & Ludema, 2012). Change agents such as middle management and external stakeholders are also in a position to influence the adaptation of sustainable values (Linnenluecke & Griffiths, 2010).

## 2.4 Theoretical synthesis

The purpose of this section is to accomplish and add clarity for the theoretical framework chapter and to facilitate analysis and discussion in subsequent chapters.

Figure 6 provides a simple theoretical synthesis of the theoretical framework in this chapter and depicts the interconnections between the theoretical perspectives utilized in this study. M&A's offer both great opportunities and challenges for companies (Schmid *et al.*, 2012). Nonetheless, over half of the M&As are reported to fail (Bauer & Matzler, 2014; Teerikangas & Very, 2006; Nguyen & Kleiner, 2003; Buckley & Ghauri, 2002). Among others, Weber and Tarba (2012) and Stahl & Voigt (2008) connect organizational culture to poor M&A performance.

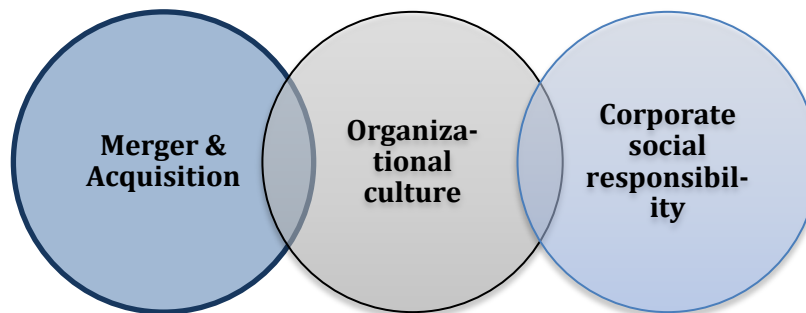


Figure 6. Theoretical synthesis.

Organizational culture is manifested and disclosed through behaviour, ways of doing things and common values of the organizational members (Buono *et al.*, 1985). According to Stinchcomb & Ordaz (2007) organizational culture is the core and the source of uniqueness that differentiates companies from each other. Distinctive or even opposing behaviour patterns, ways of doing things and values can create challenges in mergers and acquisitions and lead to cultural collusion (Cartwright & Cooper, 1993; Buono *et al.*, 1985).

In situations where two distinctive cultures are brought together, for instance as a result of a merger or an acquisition, the cultures pursue to adapt and integrate when cultural elements diffuse (Sarala, 2010). The process is called acculturation (Nahavandi & Malekzadeh, 1988). As a result of acculturation, the distinctive organizational cultures may or may not adapt to each other in several modes. Managing and planning are tools that moderate and streamline the process of both – structural and human integration (Schmid *et al.*, 2012; Weber & Tarba, 2012; Stahl & Voigt, 2008).

A connection between organizational culture and CSR can be established through employee behaviour and decision-making. The behaviour patterns and decision-making are influenced by organizational culture; values, beliefs and deeply rooted assumptions, that define the tendency of a company's business operations (Kalyar *at al.*, 2013; Galbreath, 2010). Literature determines that humanistic cultures perform well and align with sustainability and CSR (Melo, 2012; Ralston, 2010; Maignan *et al.*, 1999). Therefore, it is inevitable for a company to develop their organizational culture towards a more humanistic approach to align with and share values that promote CSR and sustainability. Management has also identified to play an important role in organizational culture change (Galpin *et al.*, 2015; Linnenluecke & Griffiths, 2010). Senior and top management are in a position to deploy sustainability in the company by initiating the cultural change starting from the visible or tangible level so that



the organizational culture evolves towards a culture of sustainability by aligning to Schein's (1984) model of the different levels of organizational culture (Galpin *et al.*, 2015; Stoughton & Ludema, 2012).



























































