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Cultural Dimension Analysis of AOL-Time Warner Merger

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Abstract: A good number of organizations around the world are trying to augment their growing processes using the merger and acquisition shortcut. In some cases, the lack of awareness about the cultural forces may produce adverse results. This study tries to explain how AOL/ Time Warner merger failed to deliver Time Warner's significant film, publishing and music assets to AOL's massive subscriber base due to cultural differences after the merger took place.

Keywords: Culture, clash,merger,AOL,Time-Warner.

1. Introduction:

Mergers and acquisitions is an aspect of corporate strategy, corporate finance and management that deals with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. A lot of organizations around the world are trying to augment their growing processes using the merger and acquisition shortcut. In some cases, the lack of awareness about the cultural forces may produce adverse results. The merger would clearly change the direction of the business, its justification was about developing a long term position in the industry and it would have far reaching implications for most part of the business in terms of priorities and how the organization would function. It also raised further challenges for the future. All organizations are faced with the challenges of strategic development, some from the desire to capture new opportunities, such as with AOL-TW, others to overcome significant problems. In short, this was a key strategic development. The case study on AOL-Time Warner explains some background to the merger and the way in which the new company intended to take advantage of the combined company.

For Warner, merging with an existing company was a more effective way to distribute its contents via online channels as opposed to building its own capabilities. Creating an own Internet branch would be both very costly and time intensive. The combination of Time Warner's broadband systems, media contents and subscriber base would create significant synergies and strategic advantages with AOL's online brand, Internet infrastructure and own subscriber base of 30 million customers. The mostly untapped AOL subscriber base and the e-platform, which promises new service and revenue opportunities, and cross-marketing opportunities, will provide growth potential (K.K.Verma).According to STOCKTON (2000), the merger had been motivated by four bases: marketing – reducing costs using the avenues and outlets of each other to prospect combined marketing clout; 'clout' originally means a punch or a blow. In this context, marketing clout signifies power, influence, skill; distribution – promoting product access through DSL system (*Digital Subscribers Line)*, *wireless*, satellite and cable; content – increasing the AOL's competitiveness with the premium Time Warner content; and efficiency – combining sales forces, advertising and other functions.

2. Brief Overview of the said merger:

Overview- AOL:

♦ First established in 1983 and in 1985 named Quantum Computer.

♦In 1991, the company renamed America Online(AOL).

In 1992 the company went public in NASDAQ (National Association of Securities Dealers Automated Quotations).

♦ Share price increased manyfolds in two years.

Overview- Time Warner:

Time Warner, is a result of merger in 1989 worth $14 billion dollar between Time and Warner brothers.

Time, established in 1922.

- Main business is magazine Publishing.
- Followed by cable television in late 70s by acquiring American televesion and Communication Company.
- Warner Brothers
- Established in 1923
- Main Business is film production
- Followed by music production and cable television operator business in the 60s.

AOL -Time Warner

- In Jan11, 2001, it had been announced the Merger between AOL and Time Warner.
- The Federal Communication Commission in the USA approved the 105 billion dollar merger of AOL-the world's largest Internet Service Provider(ISP)-with Time Warner(TW)-the media and entertainment empire with interest in magazines, film studios, cable T.V and news and music production.
- The aim of the merger was to :
- "Create the world's first fully integrated media and communication company for the internet century"
- The AOL-Time Warner merger created a vertically integrated company that stretched across industries, across economic models and across geographical boundaries.

3. Cultural Dimension Analysis:

Culture, as a group of values and shared practices by communities, persuades the structure and management style as well as influences all established relations either customer services or work relations. Culture extremely persuades the organizational strategy .One of the main motives for the cultural conflict between the companies which are engaged in mergers and acquisitions is the lack of explicit consciousness of the organizational cultural matters. The culture is an influencing factor because it brings unpredicted and unwanted consequences if the decision making process does not consider the working cultural forces. The cultural clash occurs when two groups have different opinions about what really matters, what has to be measured, how to make better decisions, how to organize resources, how to supervise people, how to spread information and so on. The cultural clash may be detrimental not only to the companies involved in merger processes, but also cause a conflict which results in bringing about changes in the whole industry or even bring about a tendency alteration.

The cultural collision in mergers and acquisitions processes happens in four stages (BARROS, 2001): on the first one, the differences are not noticed, and their management is supposed to be mostly of times, easier than the 'real life'; on the second stage, the differences show up – leadership styles, symbols, rituals, typical heroes – and became noticeable; on the third stage, those differences are enhanced and everyone starts to find the comparison between "we" and "they"; finally, on the fourth stage, the uppers and lowers can be viewed.

♦ Organization culture Strategy Analysis:

The following table shows that cultural dimensions were different when AOL, the world largest Internet service provider merged with Time Warner- the multimedia empire. AOL had a corporate culture that was speedy and collaborative while TW was slow and decentralized.

Table:1: Dimension of cultural differences

AOL	TW
The world largest Internet giant was centrally managed.	TW nurtured a decentralized management system which brought about autonomy at divisional level.
AOL is high technology based Internet service provider(ISP)	TW is the old-world, previously separate sectors of computing, telecommunications and the world of media and entertainment
AOL is comparative smaller, younger since it established in 1991.	TW is not only a big with around 44 million magazine and 12 million cable TV subscriber but also mature.
Top-down management style.	Improvisational style- Improvisation is the practice of acting, dancing, singing, playing musical instruments, talking, creating artworks, problem solving, or reacting in the moment and in response to the stimulus of one's immediate environment and inner feelings. Techniques of improvisation are widely trained in the entertainment arts; for example, music, theatre and dance.
Unitary culture of AOL concentrated to only providing internet services among subscribers.	Diversified enterprises–the media and entertainment empire with interests in magazines, film studios, cable TV and news and magazine production unfolded numerous benefits to its large customer base.

It had focus on stock price appreciation. AOL was newly formed internet service provider company which was a result of the Internet Bubble and the new economy 'virus' that took control of business agendas around the world, had managed to acquire a solid company in order to extend its successful existence.	TW has access to first a growing market, millions of customers for its media content and a proven internet brand to leverage its broadband business resulting an organic business growth. Time Warner having competition against companies like Bertelsman, Disney, News Corp., Sony, Viacom-CBS and Vivendi-Universal desired to build one of the biggest media companies around the world.
Compensation-stock option-Internet trend.	Profit sharing –old school.
Tight on finance/cost cutting.	Spendthrift- because TW spent money profusely for marketing TW content available to AOL premium customer.

AOL and Time Warner failed to implement their visions and were not able to generate an environment within the companies to initiate the synergies that were proposed. The cultural dimension AOL/TW merger analysis confirms that mergers and acquisitions are not strategy and usually, very slight emphasis had been paid to designing the cultural mix or integration of companies involved in this kind of movement. Top management's self-image and fake synergy concept that had been built upon exaggeration, usually hinder the growth trap and resulted the possible cultural clash. This has been noticed that Divisional Autonomy in TW leading to reluctance on the part of divisional heads to share the premium content necessary make internet ventures viable, bad communication and differing opinions about the core business that was not so apparent at the initiation of merger , may become brawny sources of collision between the organizational cultures of involved companies.

4. Conclusion:

AOL desired to carry on its growth by acquisition strategy in for rationalizing its high market capitalization. Time Warner was panic-stricken that its outdated network of traditional media outlets (television broadcasting, publishing, movies, magazines, and newspapers) looked-for a major chunk. Time Warner believed that in order to have competitive advantage, it required an instant insertion into the internet.

The aspiration of both companies was identical but organizational culture was completely different which make us feel that mergers and acquisitions can lead to expand business by means of leveraging TW cable to provide broadband access to AOL customers but it was not complete not strategy. The business expansionist outlook coupled with lack of awareness of cultural matters possibly explain why AOL Time Warner failed to deliver Time Warner's significant film, publishing and music assets to AOL's massive subscriber base after the merger took place.

Generally, mergers out of panic are hardly ever successful. The valuation that analysts envisaged never materialized because the two companies have not been successful to completely integrate with each other. AOL and Time Warner have not been succeeded to devise a strategy which can facilitate the combined company to go forward, the CEO in both companies have failed to win the support of all divisions, and the dynamics and technologies of the internet have changed and have left AOL behind.

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