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MERGER AND ACQUISITION: THE ORGANIZATION WELL BEING AND IMPACT TO THE EMPLOYEES OF THE ACQUIRED ORGANIZATION

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Abstract

The paper aims to discuss the types of mergers and acquisitions and elaborate on the effectiveness of the integration of the merger based on the previous research done. Merger and acquisition do have significant impacts to employees well being, work, team performance and organization performances. Managing acquisition process and the employees of the acquired organization in the right manner and approaches can reduce the negative impact of the acquisition process. It also can help organization to recover and perform again in shorter span of time. Organization should employ the right approach and strategies during the acquisition process and special attention given to effectively managing the employees of the acquired organization. The significance of the paper stems from the fact that it highlighted some important points that need to be considered by organizations when implementing merger and acquisition exercises based on the reviews of earlier studies and some from authors own viewpoints.

Article Type – Literature Reviews and Viewpoints

Keywords: Merger and acquisition, employee's transitions, adaptations and workplace recovery.

Introduction

Acquisition and merger are two commonly used ways to pursue strategies. According to David (2001) an acquisition occurs when a large organization purchases (acquires) a smaller firm, or vice versa. A merger occurs when two organizations of about equal size unite to form one enterprise. When an acquisition or merger is not desired by both parties, it can be called a takeover or hostile takeover. There are numerous and powerful driving forces driving once-fierce rivals to merge around the world. Some of these forces are deregulation, technological change, and excess capacity, inability to boost profits through price increases, a robust stock market, and the need to gain economies of scale. Angwin (2001) stated in his study that merger and acquisition have a unique potential to transform firms, and to contribute to corporate renewal, and they can help a firm renew its market position at a speed not achievable through internal development (Haspeslagh and Jamison, 1991). Hitt, Ireland and Hoskisson (2007), on a comparative basis, lamented that acquisitions are more common than mergers and takeovers.

Horizontal Acquisitions

The acquisition of a company competing in the same industry as the acquiring firm is referred to as a horizontal acquisition. Horizontal acquisition increase a firm's market power by exploiting cost –based and revenue based synergies. Fee and Thomas (2004) cited that horizontal acquisitions result in higher performance when firms have similar characteristics including strategies, managerial styles and resource allocation patterns.

Study by Lubatkin, Schulze, Mainkar and Cotterill (2001) found similarities in these characteristics which make the integration of the two firms proceed even more smoothly. Horizontal acquisition are often more effective when the acquiring firm integrates and acquired the firm's assets with its assets,

but only after evaluating and divesting excess capacity and asset that do not complement the newly combined firm's core competencies (Capron, Mitchell and Swaminathan, 2001).

Vertical Acquisitions

A vertical acquisition refers to a firm acquiring a supplier or distributor of one or more of its goods or services (Subramani and Venkatraman, 2003). A firm becomes vertically integrated through this type of acquisition in that it controls additional parts of the value chain. Vertical integration is commonly used in the firm's core business to gain market power over rivals. Market power is gained as the firm develops the ability to save on its operations, avoid market cost, improves product quality and, possibly protects its technology from imitation by rivals (Griffin, Chandra and Fealey, 2005).

Earlier study by Williamson (1996) indicates that market power is also created when the firms have strong ties between their assets for which no market prices exist. He uttered that establishing a market price would result in high search and transaction cost, thus, firm seek to vertically integrate rather than remain separate businesses.

Merger and Acquisition Integration

Integration process is the real source of value creation in acquisition (Haspeslagh and Jamison, 1991). According to Lawrence (2002), value creation is the important objective in successful acquisitions. No matter how attractive is the business opportunity associated with an acquisition process, value is not created until capabilities are transferred, and people from both organizations collaborate in order to create the expected benefits and the unpredicted opportunities. They stressed that this collaboration relies on the will and ability of managers from both organizations to work together towards a new future. The key to integration is to obtain the participation of the people involved without the compromising the strategic task.

According to Olie (1994), effective integration is the combination of firms into a single unity or group, generating joint efforts to fulfill the goals of the new organization. This combination is often obstruct by the challenges of the nationality and perceived cultural differences. He said international mergers are more likely to bring together people with different values and beliefs about the work place. Factors like an individual country's ideologies and industrial relations system increase the national distinctiveness of organization. Merging implies the reconstruction of a new social identity. Datta and Grant (1991) in their study highlighted that the two organizational integration variables are particularly relevant in the acquisition process: the motive for the acquisition (strategic fit and the decision making process) and the process of implementation. Buano and Bowditch (1989) stressed that the motive for an acquisition is important in that it will influence the degree of required interaction between members of each organization. Implementing strategies, if not handled well, may prove to be detrimental to organizational effectiveness, particularly if it leads to high levels of acculturate tension and conflict.

Merger and Acquisition Implementation

It seems to be indispensable to have a clear implementation strategy before a merger and acquisition decision (Viscio, Habison, Asin and Vitaro, 1999). A well plan merger and acquisition process, based on corporate needs and the definition of financial and strategic objective sought, usually leads to a more effective post merger implementation. McBain (1999) suggest that a strategy to handle the employee resistance to change is considered of great determinant and significance in the successful implementation of merger and acquisition. According to Schweiger and DeNisi (1991, communication problem can undermine the commitment of employees for effective implementation. A systematic effort is required to approach and inform employees and to create an internal climate of fairness (Fairfield, 1992). Ranft and Lord (2002) have proposed a model of information and knowledge transfer during acquisitions implementation. Basing themselves on the in-depth study of seven cases of high technology acquisitions they developed a set of propositions regarding the influence of the nature of the knowledge to be transferred and various dimension of acquisition implementation.

Effective Merger and Acquisition

Hitt, Ireland and Harisson (2001) research shed light on the differences between unsuccessful and successful acquisition strategies and suggest that there is a pattern of actions that can improve the probability of acquisition process. Their study shows that when the target firm's assets are complementary to the acquired firm's asset, an acquisition is more successful. With complementary assets, integrating two firms' operations has a higher probability of creating synergy. In fact, integrating two firms with the complementary assets frequently produces unique capabilities and core competencies.

According to Hagedoorn and Dysters (2002), with complementary assets, the acquiring firm can maintain its focus on core business and leverage the complementary assets and capabilities from the acquired firm. Often, target were selected and 'groomed' by establishing a working relationship prior to the acquisition.

Another study by Aiello and Watkins (2000) shows that friendly acquisitions facilitate integration of the firms involved in the acquisition, Through friendly acquisitions, firm work together to find ways to integrate their operations to create synergy. In contrast, research done by Gwynne (2002) found that hostile takeovers often result between the two top management's teams that affect working relationships in the newly created firm. As a result, more key personal in the acquired firm may resigned or leave the firm, and those who remain may become hostile and resist the changes and change effort necessary to integrate the two firms.

The issue was further investigated by Cullinan, Le Roux and Weddigen (2003). Their study discovers that effective due-diligence processes involving the deliberate and careful selection of target firms and an evaluation of the relative health of those firms (financial health, cultural fit, and the value of human resources) contribute to successful acquisitions. Hitt, et al (2007) mention that another attribute of successful acquisition strategies is an emphasis on innovation, as demonstrated by continuing investments in R & D activities. Significant in R & D investment shows a strong managerial commitment to innovations, a characteristic that is increasingly important to overall competitiveness, as well as acquisitions success.

Flexibility and adaptability are the final two attributes of successful acquisitions. When executives of both acquiring and the target firms have experience in managing change and learning from acquisitions, they will be more skilled at adapting their capabilities to new environments. As Coff (2002) discovered in his study, efficient and effective integration may quickly produced the desired synergy in the newly created firm. Effective integration allows the acquiring firm to keep valuable human resources in the acquired firm from leaving.

Culture in Merger and Acquisitions

Finding similar organizational cultures and management styles has become a common panacea for avoiding employee dissatisfaction that could undermine merger and acquisition performance (Larson, 1993). Cartwright and Cooper (1993) agree that it is important to consider cultural compatibility as a criterion for screening potential candidates for merger and acquisition. They said acquisition selection decisions are generally driven by financial and strategic consideration, yet many organizational alliances fail to meet expectations because of difficulties in the acculturations process which would compromised the knowledge transfer and learning to occur. On the other hand, Buono and Bowditch (1989) highlighted that managing the cultural differences has been proved as a more realistic and successful strategy in integration processes than finding the 'ideal culture fit'. They consider that successful integration can be achieved even between diversified organizational cultures.

Organizational culture tends to be unique to a particular organization, composed of an objective and subjective dimension, and concern with tradition and the nature of shared beliefs and expectation about organizational life (Buono et al, 1989). They offer two distinct conceptualization of organizational culture, shared values and beliefs among organizational members. On the other hand, Schein (1985) describe culture as the solution to the external and internal problems, and state that culture is multi-level in nature, consisting at its deepest level of the most basic assumptions, values and artifacts.

And Cartwright and Cooper (1993) suggest that cultures serve as forces that draw organizational members together, creating a sense of cohesion. Nahavandi and Malekzadeh (1988) defined acculturative process as the cultural changes resulting from the interaction of one organizational culture with another, or the way in which two groups adapt to each other and resolve emergent conflict. According to them, a basic acculturative process occurs between the conflictive subgroup desires for cultural differentiation and organizational forces for integration.

Merger and Human Resource Risk

The management of human resources proves more and more important for the outcome of a merger and acquisition (Marks, 1997). Cartwright and Cooper (1993) earlier found in their study that merger and acquisition are not just financial transactions, but rather processes which may significantly affect the working lives of people. The study by McBain (1999) and Griffith (2000) found reduced productivity, increase of absenteeism , low job satisfaction, resistance to change, defeatism are a general negative behavior . This situation has been characterized by Marks (1997) as a “merger syndrome”.

In the study conducted by Davy et al (1988), they estimated that a quarter to half of merger and acquisitions failures is caused by problem of integrating the different cultures and workforces of merging firm. Similar conclusion further drawn by Cartwright and Cooper (1992) and Carey (2000) who argue that mergers between certain culture types can be disastrous in that they lead to cultural ambiguity, confusion and hopelessness. According to Storey (1995), human resources was defined as distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce, using an integrated array of cultural, structural and personnel techniques.

Schweiger et al (1987) indicate that job security as the most important factor for employees during a merger, followed by pay and benefits, work autonomy, and performance feedback. Another research conduct by Kanter and Seggerman (1986), also indicated that organizational changes process in mergers is usually tightly controlled by management and decisions on job losses are driven solely by the need to reduce numbers. Thus, employees are commonly concerned not only with job security but also with how selection decision are made. Related to this, a number of researchers have shown that perceptions of procedural fairness are key factor in determining staff attitudes of the staff that remain in the organization (Brockner and Greenberg, 1990; Schweiger et al., 1994).

Corporate Identity and Communication in Merger and Acquisitions

Recent research undertaken by Mercer Management (MM) Consulting (1997) indicates than an alarming 48 percent of mergers underperform their industry after three years and that failure to unlock value is often due to poor implementation of mergers. The research, therefore have a sub objective of establishing the main reasons why mergers fail, and to what extend this could be attributed to a lack of attention accorded to corporate identity and corporate communications.

MM Consulting concluded that a commitment to effective management of corporate identity and communication should be treated as a key element in the successful implementations of mergers and acquisitions, particularly given amount of confusion, uncertainty, and media attention that tends to surround such events. A similar finding was found by Professor Sirower of New York’s Stern Business School (Morgenson, 1998) who found that roughly two-thirds of mergers are left shareholders relatively worse off. Abratt (1989) in his study defined corporate identity as referring to those attributes which make an organization distinct or, explained differently, refers to ‘ what an organization is’. Typically, corporate identity is seen to be multi-disciplinary in perspective which embraces a number of management disciplines including corporate communications, corporate image and reputation, corporate strategy and organizational structure and organizational design.

As such, MM Consulting suggests that both companies, when considering a merger, should address the following questions of themselves and of their partner company:

- Where have we come from?
- Why are we here?

- What are we now?
- Where are we going?
- What do we want to be?

Van Riel (1995) explained in his study that corporate identity, because is transcends disciplinary boundaries is, therefore, particularly efficacious in addressing the non-financial aspect of the pre, during and post merger phases. The benefits of the robust corporate identity are of pivotal importance to the newly merged company, as a powerful corporate identity enhances the likelihood of identification or bonding with the organization. This applies both internal and external target groups.

In Balmer (1995) study also stressed that when two companies enter into merger process, they are creating a new corporate identity, and this new corporate identity must be nurtured in order to allow its various stakeholders to identify with new organization. Corporate identity and corporate communication consultancy may, therefore, be seen as providing a mirror and a window, reflecting and revealing the organization's culture and personality. Balmer further noted that the interface between corporate identity and strategy therefore assumes critical importance during the merger process. Many firms choose to address this issue through the creation of a powerful new visual identity. He said that changes in visual identity can symbolized a change in corporate strategy or strategic communications and as such can be powerful.

Leadership in Merger and Acquisitions

So what is the role of a leader when it has just been announced that their organization has been acquired or merged? How do leaders keep themselves and others motivated and focused on work goals, customer satisfaction, and revenue growth? According to leadership expert Ronald Heifetz (Taylor, 1999), the real heroism of leadership involves having the courage to face reality and helping the people around you to face reality. While this is always true, it is never truer than in the pre-combination of merger phase. Mergers and acquisition often presents harsh realities that lead to emotions or denial, betrayal, disengagement and anger. Marks and Minvis (1998) describe three phases for merger and acquisitions. These are pre-combination, combination and post-combination. The role of the leader is distinctly different in each of these phases. According to them, pre-combination phase is the most challenging for the leaders.

Adaptations of employees to transition

When merger and acquisition takes place there are various exercises concerning employees of the acquired organization to ensure there is no redundancy in the new organization structure which requires termination exercise of employees. Also some acquiring companies requires the surviving employees from the acquired companies to performs functions which are not familiar to them, and some may even be downgraded to matched with the standard grades of employment of the acquired company. These scenarios may have an impact to the survivors (employees of the acquired organization) mentally well being and motivation rate.

Studies consistently show that, in the aftermath of transitions involving layoffs, survivors' attitudes in areas including job satisfaction, job involvement, organizational commitment, and intention to remain with the organization become more negative. Organizational trust falls, while fear increases. Layoff survivor sickness has been well documented, with symptoms ranging from job insecurity and feelings of unfairness to depression, fatigue, and reduced motivation. The unintended attitudinal consequences of poorly managed transitions are pervasive. A longitudinal study of 10,000 United States employees representing 4,000 organizations found those from firms that had been engaged in a merger or acquisition reported significantly less favorable results than those who had not experienced merger and acquisition. This is held true for every industry group and every facet of working life measured (Marks, 2006).

A difficult transition's unintended consequences also are manifested behaviorally. Organizational communication deteriorates and managerial rigidity increases during mergers and downsizings. Acquired organization employees who survive major transitions would experience lack of direction in prioritizing work, risk avoidance, and increases in role ambiguity, political behavior, and work team dysfunction (Marks, 2006). They also report working harder but not any smarter and the workload doesn't get smaller when the work force does.

Employees Adaptations

Bridges (1991) describes adaptation to transition as an internal process of moving through three stages: Ending and letting go of attitudes, expectations, and behaviors consistent with old realities. Going through the neutral zone of ambiguity, confusion, and, perhaps, despair and a sense of meaninglessness; and making a new beginning by accepting and adopting attitudes, expectations, and behaviors consistent with newly emerging post transition organizational realities.

Marks (2006) explain that the adaptation process is a natural and normal human response to transition. Marks further explains that psychologist Harry Levinson, argues that whether it is resisted or embraced, all change is a loss experience, particularly a loss of familiar routines. The more that what one leaves behind is psychologically important, the more likely one's behavior will take the form of resistance. Levinson further notes that all loss needs to be mourned and that people should have an opportunity to discuss and deal with their feelings if they are again going to be able to perform effectively on the job. Transitions flounder when the experience of loss is not taken into account. In contrast, for an organization and its members to use transition as a force for renewal, leaders must acknowledge the experience of loss, provide means for working through it, and help people adapt to new realities.

Organization with profit orientation approach would normally ignore the experience of loss by their new employees (the acquired employees) and fail to acknowledge the risk of not mitigating the negative situation. As discuss above, one of the common objective of merger and acquisition is to perform cost cutting exercise and utilized resources for more expanded market. Thus, having to incur more cost for training to make the new employees more adaptable to their new organization would defeat the purpose of the merger exercise. This would have an impact on the new employees performance and contribution to their new organization well being. However, organization with far vision, would acknowledge the issue of cordial working environment between the new employees and their existing employees. Healthy, cordial and conducive working environment would increase employee's efficiency and have a positive impact on the organization profit. Therefore, it is important for organization to address the issue of new employee's adaptation and familiarization with their new organization in view to achieve their organization goals with one team mentality and spirit.

Marks (2006) suggest four elements or workplace recovery which consists of:

i. Empathy. Letting people know leadership acknowledges that things have been difficult and, for at least awhile longer, will continue to be difficult.
ii. Engagement. Creating understanding of and support for the need to end the old and accept new organizational realities.
iii. Energy. Getting people excited about the new organizational realities and supporting them in realizing them.
iv. Enforcement. Solidifying perceptions, expectations and behaviors that are congruent with the desired post transition organization.

By attending to these four elements of workplace recovery, leaders can accelerate the speed through which employees let go of the unintentional pain and consequences they experience during and after transitions, while simultaneously using transitions as opportunities to build new and better workplaces. Thus, workplace recovery after transition is not just about helping people feel better or becoming more capable in their job performance, but also about informing and enhancing management and leadership decision making on business issues.

Empathy

A variety of organizations, from AT&T to Standard Chartered Bank, have conveyed empathy through events and ceremonies that accelerate the letting go process (Marks, 2006). Carefully facilitated ‘‘venting meetings,’’ in which employees express their pent up anger and other negative feelings, have proven particularly helpful in facilitating letting go. Even for employees who do not speak up, evaluations of these sessions reveal that vicariously listening to others express similar views is beneficial in weakening the negative emotions left over from living through a difficult transition.

Acquiring organization should acknowledge the difficulties that their new employees are going through and effort should be made to raise awareness of the positive side of the transition and guide them to adapt faster to their new organization. Trainings and workshop should be organized for the new employees as if they are employed through the normal process of employment, not the acquisition process. By doing this, the organization would provide opportunity for the new employees to be aware that the top management is aware of the situation they are going through and the management is doing something about it.

Engagement

The acquiring organization should create understanding and support for the new employees to end the old and accept new organizational realities. It is important for the acquiring organization to constantly communicate with the new employees and provides opportunities for the new employees to participate with the new organization events like being a committee for the company annual dinner and sport events. Intervention should be made to remove the new employee’s mentality of being inferior (as being the employees of the acquired company) and train the employees to priorities their work based on the new organization procedures.

Energy

Acquiring organization should get the new employees excited about the desired post transition organization and support them in realizing it. This can be done by clarifying the vision of a new and better organization by introducing a learning environment and opportunities for short term wins. In addition, the acquiring organization should connect with the new employees and provides them with support while accepting their confusion.

Enforcement

Acquiring organization should enhance perception, expectations and behaviors which are congruent with the desired post-transition organization. They should motivate and getting the new employees to involves with bringing the organization vision to life. Working procedures, and operations standard should be aligned and made familiar to the new employees; and the organizational structure should includes the function and specifies the task of the new employees. Monitoring of all positive development made to the new employees and ensures success or improvises where possible.

Leading and facilitating the workplace recovery

Efforts at workplace recovery after major organizational transitions typically are sponsored by senior executives such as CEOs or business unit leaders. On occasion, however, middle level managers have taken the initiative to help their departments or work teams recover from a difficult transition.

The four elements of workplace recovery aid employees in letting go of the unintentional pain and consequences they experience during and after transition, while simultaneously contribute to using transitions as opportunities to build new and better workplaces. This is how to take transition weary employees, rebuild their confidence in themselves and their leaders, and ready them in being able to capitalize on emerging business opportunities that help achieve a transition’s strategic objectives.

Conclusion

Merger and acquisition are commonly beneficial to organization shareholders, be it the acquirer and the acquired organization. Some of the benefit of merger and acquisition beside than cost cutting are gaining from the economics of scales; organization could renew its market positioning, accelerate organization growth and reduce competition. In achieving and obtaining the benefits, merger and acquisition can be done either vertically by acquiring suppliers or distributors in the industry value chain; and horizontally by acquiring the competitors within the same operations or industry. While organization reap the benefit of the merger exercise, employees of the acquired organization would experience job dissatisfaction, less involvement in operations, low commitment and intention to remain with the organization become more negative. Their trust and faith on organization commitment to their well being deteriorates disastrously and fear of losing their jobs increases. The acquirer or the organization who acquired the company should put concern on the issue of new employee's dissatisfaction and all the negative perception of the acquisition or merger exercise. This is to ensure that in order for the organization to reap the benefit of the merger or acquisition, the issues of adaptation of new employees need to be resolved and monitor. Having the elements of workplace recovery in place, organization would able to mitigate the issue of adaptation of the new employees and focus on the acceleration of organizational growth.

Therefore, it is prime important for organization's leader to resolved the issue of unsettle new employees and aligned the organization process between the acquirer and the acquired organization. Unsettle new employees issues would lead to top management lose their strategic focus which rather than reaping the benefit from the organizations merger, top management would have to deal with the prolong problem of unsettle new and existing employees. It is therefore important for top management to provide greater focus at the initial stage of the merger or even before the merger take place to implement the elements of workplace recovery. By the time the merger deal finalized, the acquired organization would have settle all the problems of adaptation and later able to starts focusing on strategizing and accelerating the growth of organizations.

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