

Challenges faced by organisations during mergers and acquisition management essay...



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To survive in a competitive market firms has to develop a long run strategy to maintain or expand their market share, one common strategy is to merge with or acquire another firm. Owing the financial crisis in 2008, the total volume and value of Merger & Acquisition deals have decreased but on the other hand the crisis may create lucrative business opportunities since stock prices dramatically decrease and companies are consolidating their businesses.

Researchers have stressed that managers need to examine the consequences of the human perspective in a merger and especially the impact on employee motivation. During the operational combination stage of a merger there should be a possibility for employees to improve their way of handling their day-to-day operations and therefore increase their motivation and the firms' efficiency. As a result, one of the most valuable assets in a merged firm is the employees which are consequently one of the key components to finalize the mergers' goal for value creation.

Executives that are involved in Mergers & Acquisition activity would argue that it is a rational behavior and in the long-term interest of their company and shareholders. During 2009, financial distress has continued to be a challenge throughout various industries and troubled companies looked into aligning with larger, stronger players in order to survive in a competitive market. To reach new strategic objectives and compete in the market a storm of mergers has taken place. Changes caused by a merger affect the organizational climate, work assignments and group dynamics which have shown to have a significant effect on employee motivation. The organization's performance is affected by psychological responses of

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employees and the correlation becomes clearer during drastic organizational change like a merger. This may result in negative behavior like absence and even acts of sabotage on the other hand it can result in positive behavior like more commitment and loyalty.

There are four different stages in a merger process and each stage has different effects on the employees in the merged company. These stages are: pre-merger, initial planning and formal combination, operational combination and standardization the most significant effects on employee motivation occur during the operational combination stage which is the actual integration of organizational functions and day-to-day operations. During this process budgets, work assignments, reporting responsibilities are redistributed and employees are forced to learn new ways of handling their operations, managing new performance requirements and adopting a new corporate culture.

The changes often leads to issues for employees and researchers have determined three significant sources that occur during this stage that derive from the social identity, role conflict and acculturation which has an impact on employee motivation Qualitative studies have previously established that these three approaches derive employee motivation. However, the statistical relationship between these variables are yet unknown.

An industry whose core competence lies within their human capital is the professional service firm industry. The firms in this industry rely on their employees and their knowledge to gain a competitive advantage. Therefore,

it is interesting to observe how employee motivation is affected in this particular industry after a merger.

2. Main Body: –

2. 1 Challenges faced by management of the new organization during the process of Mergers and Acquisition.

Mergers frequently set goals that cannot be achieved but the illusion is comforting. In the corporate world there is a widespread assumption that at least half of the mergers fail to achieve the goals that brought them to consider merger in the first place. There is a sense in which mergers are often about transferring the assets of one organization to another without acknowledging it. Within a few years one of the organizations has “won” and the other has “lost” – power, quality of work life issues, members that stay in the merged organization, etc. Mergers can result in lost members/employees and stagnation. Poorly managed mergers can result in a merged organization with an organizational culture marked by denial, mistrust, illusion and a fear/blame cycle.

When a new organization is formed after any merger or acquisition, they face many challenges. Post-merger integration is a gradual and interactive process, where people of two different organizations learn to co-operate to transfer of their strategic capabilities. The human impacts of M&A process are often wide ranging and depended on the level of post-merger integration. It can be concluded that the corporate culture and other organizational issues are the main causes behind the success and failure of a merger. People resist change and M&A gets major structural and cultural changes which may often lead to stress, anger, disorientation, frustration, <https://assignbuster.com/challenges-faced-by-organisations-during-mergers-and-acquisition-management-essay/>

confusion among the employees of the new organization. Uncertainty and other negative emotion can cause several negative outcomes in the organization like lowered commitment and productivity, increased dissatisfaction and disloyalty, disloyalty, high turnover, leadership and power struggles and a general rise in dysfunctional behaviour. The most common human related risk related to M&A they are as follows:

Voluntary turnover of key people: One of the major concerns for the management of new organization is losses of expertise. Employees are often insecure about their position and role in the new working environment. This stress among staff often forces them to voluntarily leave the organization. This was also one of the biggest problems of Barclay's management when they acquired Lehman Brother in September 2008. During the initial stages of the integration, Lehman staffs were departing from the company. This created shortage of expert staff in the new organization formed.

Integration: In the process of M&A, integration is very important. When Barclays acquired Lehman brothers they wanted to finish the process quickly to minimize disruption in the business, this integration process caused strain on the Lehman staff and forced them to leave the company. Management of the new organization has to communicate effectively with employees to rebuild trust and discourage any rumors within.

Lowered commitment and disloyalty: After merger when employees depart from the company remaining employees are discouraged. They are confused with the new working environment, in the new culture and often lose their commitment to the company. Management has to find new ways to develop

a sense of belonging to the organization by clearly identifying roles, rewards and appraisals etc.

Cultural Issues: This is one of the 2nd most important problems in the Barclays case study. As we know every organization has its own culture, and people find it very difficult to adapt new culture. Barclays and Lehman both had strong individual culture that resulted in clash among the employees which needed to be resolved internally. Many Lehman staff did not join Barclays which clearly showed that there were problems in the integration of the two companies. Any new organization after merger has to manage these conflicts among the staff to reduce absenteeism, dissatisfaction, frustration, confusion and stress among the employees. To effectively manage integration and reduce conflict management has to allocate rewards and resource efficiently. And this was the key solution to the Barclays cultural problem.

They can either provide roles and responsibility for the key members from Lehman Staff.

Give equal opportunity for promotion at the end of the year.

Provide meaningful rewards to the Lehman staff despite only half year-end contribution to Barclay's business.

Employee Motivation: Employee motivation can be explained as both intrinsic factors that drive actions and extrinsic factors that serve as encouragement to actions. The intrinsic motivators are the individuals desire to do activities, regardless of whether it is a hobby or a work assignment.

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Employee motivation can affect three aspects of actions which are direction, intensity and duration. The first aspect, direction, implies that the individual has an opportunity to choose which way work will progress. The second aspect, intensity, refers to how much effort an individual put into work. The third aspect, duration, explains how persistent an individual are at work.

Employee motivation theory is also divided into cognitive theory and process theories. Cognitive theory is based on Maslow's hierarchy of needs which states that employees' behavior will focus on satisfying lower needs in order to be able to reach a higher level on the

hierarchy of needs. It is also assumed that if the individuals' needs are unsatisfied it will change its behavior to achieve self-satisfaction which can result in inadequate work performance. Employee Motivation was 3rd most important issue for Barclay PLC. Keeping Lehman staff motivated and enhance trust in them for Barclay's organization during the integration process was becoming an important task for Barclay's management. Failure of Lehman Bank had personal impact on Lehman staff, but the integration of Lehman staff with Barclay's business placed a large uncertainty in the staff. Uncertainty creates stress, anger, frustration and confusions and these negative emotions forced Lehman staff them to leave and join other organization. Managers have to manage these problems proactively, properly and effectively. They have to create trust and organizational commitment in the remaining staff to keep them motivated because employee motivation in an organization is a key to success.

2. 2 Analysis of Barclay PLC's Decision of merging with Lehman Brother:

Barclay's decision in merging with Lehman Brothers has given rise to many new problems specially related to Culture, Conflict and Change.

2. 2. 1 Culture:

Culture is one thing that evolves over the year and cannot be changed or merged it be any organization or any department. With all the mergers that have happened till date, culture is one thing that plays a major role in the advancement of the new entity. Special sessions are to be organized in order to get the new entity on a new path. Human resource consultants and the ob trainers are to be hired in order to get the staff interaction in a positive manner and to build new confidence for the existing staff with new role - responsibilities - position - communication changes - with changes in process on regular intervals.

Primarily, the culture of both the organizations was different, as both had different leadership style, commitment, professionalism, working style, way of doing business and execution, etc.

Looking at the merger, the Barclays management will have faced 3 kinds of cultural effects, which may have occurred in this merger:

Win N Lose Effect.

Status and position are always a prime concern, types of managers - their locations - organizational culture. As analysed the employees of Lehman Brothers felt as if they or their company lost a battle to Barclays PLC, and now they will have to work under the same people who are alienated to
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them. They would have been in a dilemma of how the new staff will be looked upon and treated by the members of the new organization.

To avoid this situation the leaders should take control of communicating with employees of Lehman Brothers and ask them to prevail a sense of honour and security within them with some positive words and counselling.

This merger would be taken as win or defeat case where in relaxation should be given through soothing words by leaders and the experience of the existing employees within the organization should be made positive and confident. Merger would always be influenced by the culture of the winning group but the situation should be made light and comfortable for all the employees.

Cultural Isolation Effect:

There is no set pattern of the cultural transition of the merger. This would differ from company to company. Cultural compatibility is not possible in all the department of Barclays - it may be more or less depending on the departments. Lehman staff may have different ways to interact even though they have same values - Barclay's staff may have different values even though they have same communication ways - so perfect alignment of the culture in all departments is nonexistent, but maximum effort should be made to simulate the culture of the existing staff through proper interaction by leaders.

The over the shoulder Effect

In the new entity Barclays-Lehman merger, the general tendency was that effectiveness would come in auto mode due to increased staff as a result of merger. On the other way round existing staff is shortened and efficiencies are improved. There exists a dilemma in terms of what would be the repercussions of the merger on the organization and how would they be involved in the new process. The situation is full of confusion related to promotions – positions – power – job cuts – leadership changes – staffing problems -resignations – stress issues – etc

2. 2. 2 Conflict:

Conflict is based on the in incompatibility of goals and arises from opposing behaviour. It can be viewed at various individual, group or organizational level. Conflict is not necessarily a bad thing if properly managed can also give positive outcomes like:

Positive Effect:

Better ideas are produced

People are forced to search for new approaches, etc.

Negative Effect:

Some people felt defeat and demeaned.

A climate of mistrust and suspicion increase.

An increase in employee turnover.

Managers need to adopt appropriate strategies for dealing with the harmful effects of conflict.

Conflict resolution with the new organization after merger happens on basis of mutual understanding and with the detail involvement of the new management. With all the possible situations in mind the management should evenly allocate the authority-responsibility-accountability and rewards taking into mind the experience and skill set of the existing staff without differentiating where the staff is from Barclays or Lehman as now the organization is one. There were many conflicts in the merger of Barclays and Lehman brother and the most important was:

Role conflict:

This mergers result indicates that the managers' capability to take the employees opinions in consideration is unchanged compared to before the merger happened. This can be derived from that the work units from the Barclays and Lehman have been incorporated and the employees' continues to report to the same managers as they did before the merger. This is an integration process which implies interrupting the incumbent company culture, structure, job arrangements and form new agreements. In this merger, managers' ability to listen to the employees opinions regarding the merger may prevent role conflicts from occurring. This transition is according to the role conflict theory neither done in a short-term perspective nor made distinctly which has made managerial interventions important to finalize the transactions between Barclay and Lehman. The degree of role conflict in the firm is moderate affected by the extent the employees of both the

organizations were prepared for the organizational changes caused by this
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merger and to which extent they understood the underlying strategic objectives to merge with the other firm. This implies that a higher degree of preparations and understanding of the merger would have generated less role conflict on the work place in the staff of both Barclays and Lehman.

2. 2. 3 Change: –

Change is persuasive influence. It is an inescapable path of both social and organizational life. Organization operates within an increasingly volatile environment, and is in a state of constant change. There are wide ranges of forces acting upon organizations which make the need for change inevitable. Change can affect all aspects of the operation and functioning of the organization. When Barclays decided to acquire Lehman brother, both the management teams were aware of the major structural and cultural changes it has to go through. The management of Lehman and Barclays should have prepared the employees' for the organizational changes that would occur and establish a deeper understanding for the underlying objectives of the merger. Most people are not detached from their work as Lehman staff was; but experience a range of emotional involvement through their membership of the organization. They felt threatened and disoriented by the challenge of change. Emotions such as uncertainty, frustration and fear were the common reaction of the Lehman staff. This negative reaction demonstrated resistance to change. Many Lehman staff was resistance to change and unwontedly left the organization. A merger is a period of turbulence where managers' role becomes more important since they play a vital and distinct role during this period of organizational change. They play the role as a mediator in order to reach the inside of each employee and utilize their skills in a more efficient

way. To effectively motivate employees during a merger, Barclays manager need to deal with each person one at a time and ask questions, listening to and working together one-on-one.

Handling Change:

1. Clarify and maximize the goals of merger, e. g., become institutionally stronger as they would have more clients, increased size and financial resources while decreasing building and administrative costs would support in cost reduction; increased productivity, more energy and resources available for mission and vision; making use of the strengths of each party; gain synergy that would not exist separately.
2. Explore the options available to the organization, including options other than merger, and the choices within Barclays & Lehman.
3. Increase the ability of leaders for building mutual trust and for managing disagreement, tension, and conflict within and between Barclays & Lehman.
4. Develop ways of being and working as a merged organization that appear to have the best chance of being successful (i. e., success in facilitating and supporting the primary task of the organization). If it is successful and sustained a new common organizational culture of the firm will evolve.
5. Begin the process of getting the Barclays-Lehman organization focused on and competent for its on-going development.

Issues of Culture, Conflict and Change affected the Merger process in many ways. Every Merger has problems in their own way. Strategic example —

many of us noticed that in the Time Warner - AOL merger when the two CEO's came together to make the announcement each was dressed in a manner that reflected the norms of the other's company. Deal and Kennedy report a similar event when IBM acquired Lotus in 1995. The meeting was between IBM senior vice president John Thompson and a group of Lotus senior managers. " In preparing for the meeting, the Lotus crew had donned conservative suits and ties they thought were expected in the traditionally buttoned-down IBM. They were shocked when Thompson, trying to play to the cultural dictates of Lotus, showed up for the meeting in a T-shirt and jeans."

While the attempt to be sensitive was probably appreciated the more important issue may have been strategic. IBM wanted Lotus to maintain parts of its culture as a way of protecting the assets IBM sought in the merger. There was a lot for IBM to lose if Lotus technical people found they too alienated in the merger process and left for other positions.

A merger becomes success only when it is managed properly. Despite of all the issues arise in the process of merger, the strategic decision of Barclays PLC's to acquire Lehman Brother was a right decision. First of all it will increase the market share of Barclays PLC and expand its presence into a new horizon. The major role to be played in this merger was by the human resource department and leaders of Barclays PLC and to some extent the leaders of Lehman Brothers to control the human related concerns of each individual or group of individuals in the newly formed organization. The most critical role was of human resource department, is to identify, plan,

strategize and execute a proper merger between the employees of both the <https://assignbuster.com/challenges-faced-by-organisations-during-mergers-and-acquisition-management-essay/>

organizations, so that no one felt insecure about their career, roles & responsibilities, their social or professional identity in the new organization.

2.3 Dilemma faced by Stake Holders of Barclay PLC: –

Stake Holders of Barclays PLC includes investors, owners, employees, channel partners, strategic partners, vendors, customers, creditors, etc.

There would have been many dilemmas being faced by all the stake holders of Barclays PLC. The biggest dilemma would have been the question that “ How to deal with Lehman’s burgeoning liabilities?” Another dilemma would have been that after having to invest so much for the merger and pay for covering up all the liabilities of Lehman Brothers; how they will still manage to give best returns to their creditors. Moreover both Barclays PLC and Lehman Brothers had made hiring commitments of thousands of college seniors, but with credit squeeze how will they honor those commitments. The employees of both the banks would have been in the dilemma of what will be the new structure of the organization and what will be the roles and responsibilities to be carried out by each of them. What would be the new reporting structure and who will have to report to whom and whether everyone will like it or not and how to handle such a situation. The employees of both the firms especially Lehman would face the dilemma of how will they be able to cope up with the changes of merger. The HR Management would have faced the dilemma of how will they manage the co-existent of both the cultures.

3. CONCLUDING DISCUSSION.

Making the mergers work successfully is not that easy as here we are not only just putting the two organizations together but also integrating people of two organizations with different cultures, attitudes and mindsets. While making the merger deals, it is necessary not only to make analysis of the financial aspects of the acquiring firm but also the cultural and people issues of both the concerns for proper post-acquisition integration. Workplace identity and communication has a positive significant relationship to social identity in the merger. Assessments of organizational cultures at the place of each organization, building trust within each existing organization and between the merger organizations is also important. When Barclays acquired Lehman brother they had many issues related to Human Resource. To avoid conflicts between staff and make Merger process successful management should: -

During Pre-Merger:

Identify the best of the processes, structures and climate of each of the organization; decide to use the best, develop something new from combining the ways of each, or create a new and better way.

Identify and begin to develop the leadership competencies that will be needed in the integrated organization.

Have an integration team with responsibility that includes participation in all pre-merger work, the designing of the integration – develop action plans; careful exploration of and planning for likely barriers to success, look at possible resistance and “ learning anxiety” issues, etc.

During Implementation:

Assess decisions being made about the merger in terms of the statements of mission/primary task and the culture you are trying to create.

Designing the integration - integration team and others.

Implementing the merger - celebrate success as you go along; be adaptable, refine, innovate, and revise as you go along.

Post Merger

Post merger monitoring - assessments of emerging results; additional interventions to enhance results; refine and revise any aspect of the merger based on learning from the experience as it unfolds; etc.

The process of merger seeks an outcome in which there is a high degree of internal commitment to and collaboration in the newly merged organization.

To a large extent that commitment will be built on:

How leaders come to an acceptance of people, merger goals and the merger process itself

The openness of communication and information flow - keep everyone informed; systematically gather ideas and feedback; over-communicate in all directions; provide ways for open dialogue in small group settings about ideas, fears, hopes and anxieties; deal with rumours openly and quickly; no secret meetings.

The setting of goals that are based on free choice.