

# [Merger of lehman brothers and barclays](https://assignbuster.com/merger-of-lehman-brothers-and-barclays/)

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This report provides an analysis of the merger between two giants, and one of the biggest mergers ever recorded in the history of United States. A merger between the fourth largest investment bank in the world, and the second largest bank in the United Kingdom. And would also discuss a few of the challenges the management of the new organisation faced at the time of the integration. Issues relating to

Human resource management.

Cultural difference.

Conflict and change management.

This report finds the prospects of the company, position of the new company. An analysis of dilemmas faced by Barclays staff and the stakeholders, and was the decision of a merger a right one? This report will discuss why and how the companies use Mergers and acquisition as a positive growth strategy, the most common reasons for the failures of mergers and acquisition, important role of managers of new organisation and critical human resource practises used in a successful integration of a merger.

## INTRODUCTION

It’s been about three years since the bloodshed on Wall Street that took Lehman Brothers. September 15, 2008 was the date of Lehman brother holding Inc, the fourth largest investment bank, convulsed world markets and wrecked the fortunes of millionaire financiers. Lehman brothers holding Inc which is a 158 years old bank reported revenues of nearly $60 billion and record earnings in excess of $4 billion for its fiscal year ending November 30, 2007. During January 2008, Lehman’s stock traded as high as $65. 73 per share and averaged in the high to midâ€fifties, implying a market capitalization of over $30 billion.

Less than eight months later, on September 12, 2008, Lehman’s stock closed under $4, a decline of nearly 95% from its January 2008 value. On September 15, 2008, LBHI sought Chapter 11 protection, 6 in the largest bankruptcy proceeding ever filed.

http://static. seekingalpha. com/uploads/2010/3/22/563659-126929119979662-Brian-Rezny. png

Source: Yahoo Finance

They reported bankruptcy about three months after the world stock markets dropped some 25% due to a major meltdown in securitized sub-prime mortgage market. It also came about a year and three quarters into the Great Recession, given that December 2007 became the US National Bureau of Economic Research officially-recognized downturn start date. With more than $600 billion in assets, Lehman’s has been the largest Chapter 11 filing in U. S. history to date. This also resulted in downfall of the Dow Jones average by 500 points on the day Lehman brothers filed their bankruptcy an d a bigger fall continued on for weeks, this resulted in one of the biggest downfall in the history of Dow Jones.

Ref: Lehman Brothers Holdings Inc, Annual Report for 2007 as of Nov. 30, 2007

## CHALLENGES FACED BY MANAGEMENT

Companies are constantly seeking opportunities to grow and expand their business, increase competitive edge and drive market value.  For many, this encompasses merging with, or acquiring, other companies.  Businesses are making big bets with enormous investments in hopes of being more than the sum of their parts. Two companies would work more effectively if they are merged rather than working as separate entity, this is the most common argument. Such synergies may result from the firms’ combined ability to exploit economies of scale, eliminate duplicated functions, share managerial expertise, and raise larger amounts of capital (Ravens craft and Scherer 1987)

## MERGERS AND ACQUISITIONS

A merger is generally defined as a situation in which many independent companies merge, or when one or more persons already controlling at least one company acquire direct or indirect control of the whole or parts of at least one undertaking. Whereby in a merger, the two or more companies create a new entity and in an acquisition, the acquired company loses its economic and legal autonomy [Gerpott 1993]. Mergers and Acquisitions (M&A) have become the preferred route for expansion and Consolidation. The unshakeable and rock solid companies aspiring to emerge as significant players on the global stage, are scouting to acquire prospective and attractive companies, gasping for survival due to the mounting competitive pressures. Mergers and acquisitions represent the ultimate in change for a business. No other event is more difficult, challenging, or chaotic as a merger and acquisition.

Sources ref: [Jansen 2000; Haspeslagh/Jemison 1991]

Merger and acquisition can divided in three stages, preparation stage, transaction stage (pre merger) and the integration stage (post merger).

http://www. indianmba. com/Faculty\_Column/FC1135/Fc1135a. jpg

The first stage or the preparation phase explains the reason a merger is required, and also gives information about the goals and objective of the merger.

The pre M&A or the second phase explain the why a financial negotiation is required between a target company and what would be the result of the merger. It also discusses the financial requirement of the merger.

The third and the last stage also called as the post M&A stage includes the integration of the two companies and measures required that could result in a successful merger.

In the last decade, the competition has increased a lot in many industries. Growing one organisation seems rather a lengthy process. M&As are considered to be a attractive means to expand the business and make a global presence felt amongst the competitors. This is also considered to be a very effective and a quick process. Managers believe that acquiring or a merger with another company is a quick and a more flexible option rather than starting from scratch. Wysocki [1997] means: “ In today’s economy, building work teams from scratch can be yesterday’s luxury. So, when you can’t build fast enough, you buy.” Mergers and acquisitions have become a common phenomenon in recent times.

Even if a global perspective is considered, many Asian countries along with the Europian countries consider M&As as a better alternative. This can see from the chart below that in the Asia-Pacific and the European region consists or 50% or more than that in the last decase.

http://www. researchrecap. com/wp-content/uploads/2009/02/mckinsey-global-ma. bmp

Source: Dealogics, McKinsey analysis

Stage 1or the Pre-Merger includes the planning of the M&As. There are many HRM issues also included along with the other issues. The most important being the reasons behind the Merger and Acquisitions. This stage involves an assessment of difference in the culture and organizational differences, the role of the leaders, the management styles used in the organisation etc will be discussed in this stage this will include the organizational cultures, role of leaders in the organization, life cycle of the organization, and the management styles. The mergers often prove to be traumatic for the employees of acquired firms; the impact can range from anger to depression. The second stage of integration in an M&A activity is extensive and complex. Whereas Stage 1 activities set the scene for M&A activity, those in Stage 2 are the ones that make the activity come to life. Clearly there are differences between a merger and an acquisition, differences between a merger of equals and non-equals, and differences between an acquisition with inclusion and an acquisition with separation. Then comes the last phase that is the solidification of the new entity. As the new combination takes shape, it faces issues of readjusting, solidifying and fine-tuning . On the third stage, HR issues like solidifying leadership and staffing, assessing the new strategies and structure, assessing the new culture are the main issues which an HR Manager is likely to face.

In the case of merger between Barclays PLC and Lehman Brother, the main human resource management challenges were the difference in cultures of the two organisations involved in the merger process and also the Motivation of staff from both companies and especially those from Lehman Brothers.

Tough M&As might look attractive on paper, there are many issues regarding the retention issues may take a negative side. Issues such as feeling of confusion in the staff of a new company due to lack of communication, uncertainty of job security, lack of leadership, uncertainty about the future organisation direction.

Human resource management plays a vital role in M&A. HRM issues like Organizational designing, staffing etc are very delicate issues during M&A negotiations, but it has been noticed that many of the other key issues have been overlooked, some of the issues are as follows:

The strategic rationale underpinning the deal should be understood prior to embarking the acquisition deal.

Ensure that there are no cultural difference, and this should be discussed about prior to the decision making process.

Being quick with appointing new staffs at different level in the organisation.

The project managing process should be flexible

Constant communicating whenever necessary.

KEEPING EMPLOYEES FOCUCED

There are many ways to keep the employees focused, therefore, organizations must proactively work to maintain or regain employee trust to keep them and the intellectual capital they represent “ on board.” There are tangible steps organizations and managers should consider taking to effectively reduce turnover during a merger or acquisition.

Effective reward system should be in place, so that they are focused and dedicated to their work. The challenge for management of new entity thus formed is to create a reward policy that would appeal to employees of both the combining firms.

Effective communication is another element required for the success of an organisation. Organizations should proactively create communication strategies that utilize effective organizational communication practices. E. g.: management should explain why the merger or acquisition was advantageous; repeat messages through multiple communication channels; recognize that employees prefer face-to-face communications

Keeping the staff motivated to work is really very important, especially after a merger.

Motivation levels of Lehman Brothers’ staff were not very high, This staff belonged to a company which was a leader in industry not so long ago but now it was being merged or overtaken by another competitive company.

Performance indicators should be used to judge the potential of the employees, this would help and enhance the performance of the organisation as a whole. Since Barclays and Lehman will have different performance management procedures and different parameters of performance. It becomes imminent that new entity comes up with performance management mechanism that is suitable to both the set of employees.

## BARCLAYS PLC’S DECISION IN MERGING WITH LEHMAN BROTHERS

There are many issues relating to the merger and acquisition between Barclays and Lehman Brothers. The decision of the merger will be discussed in the analysis. The implications the challenges had on the merger would also be discussed. Whether the merger was a success or not?? This would be discussed in later part on the basis of 3 C’s

Culture

Change

Conflict

The issues which are commonly seen during mergers and acquisitions are mostly related to culture, conflicts and change. So starting with culture we will move on to conflict and then change.

## Issues Related to Culture:

Culture differences are used as explanations to organisational problems in a merger. This culture can influence people to set their professional and personnel goals. Either the companies form a new culture altogether or take the strongest points of both the cultures. Having a new culture altogether is almost impossible because within an organisation itself there are a number of cultures prevailing and changing them all is next to impossible. Also culture includes individual and organisation beliefs and values. A well designed plan for the management of the cultural changes is a critical factor of success.

In case of Barclays and Lehman Brothers the problem was not just organisational culture but it also comprised of national culture. Barclays had a pure British culture whereas Lehman Brothers was a hard core U. S culture entity. Barclays had to not only integrate the company’s culture but also work upon the national culture. Few other examples of national culture integration are: Doosan and Bobcat, Lloyds and HBOS, Citigroup and Wachovia and many more. Lehman had been successful over the years and might have had appositive culture within the organisation but due to the bankruptcy set back the positive and healthy culture would also have been shattered. What Barclays wanted to follow was how a person can learn to adapt to the processes and priorities and how a person can be persuaded to follow the prototype behaviour of leaders in the organisation. Barclays understood the importance of the ill effects created due to the cultural clashes and decided to help Lehman Brothers employees in adapting themselves to the common new culture post merger.

Barclays has also identified 200 employees “ that have been designated as key to the success of the business,” according to the filing.

The first 90 days were very crucial for Barclays as it had decided to hold on all 10, 000 employees of Lehman in U. S or agreed to pay them 20% bonus of their last year’s salary. It was also stated that the employees who do stay back were to receive the bonus amount of 2008 which Lehman had already set aside for them before the acquisition. This clearly states that Barclays had never completely ignored the Lehman culture and instead retained their staff to integrate a common and new organisational culture. This insured that the staffs of Lehman brothers were not in any circumstances dominated by Barclays culture and a positive culture in the long run was maintained.

## Issues Related to Conflicts:

The integration of two organizations has many different types of implications which give rise to number of different conflicts. Organizational conflicts can be explained by:

Unitary Perspectives- Where conflict is seen as dysfunction outcome which can be like poor communication, personality clashes, work of agitators.

Pluralistic Approach- Where conflict between sub-groups is seen as inevitable and an inherent feature of organizations

Mullins L, (2004, p. 904

The common sources of conflicts in an organization includes Difference in perception, Limited Resources, Departmentalisation and specialization, The nature of work activities, Role conflict, inequitable treatment, environmental change, individuals, groups (Mullins L, 2004, p. 906), communication gap and power differences.

So with help of these two we can now easily point out the possible sources of conflicts in this case. The possible sources of conflicts include:

Difference- in perception between the employees of Lehman Brothers’ employees regarding the culture, management and leadership of the Barclays Plc.

Role conflict- is also clearly evident with the situation as the employees from Lehman Brothers’ do not know about their future roles and responsibilities

Inequitable treatment- will be source of conflict if the management of Barclays Plc. only considers Barclays employees for rewards distribution.

Environmental changes- the environment for the Lehman Brothers’ staff has changed considerably and this becomes the source of potential conflict.

Communication gap is also serving as the cause of conflicts as Lehman Brothers’ staff does not know about their future.

So these are the conflicts issues which produce negative impacts on the people of both the organization, but the another approach regarding the conflicts is the Interactionist

perspective tells us about the positive side of the conflicts which says that the minimum level of the conflict is good for the health of the organizations (Mullins L, 2004, p. 905). So for managing these conflicts the new organization needs to set up training programs, coaching, mentoring, non-monetary rewards, clarity of goals, and introduction of more participative and supportive style of leadership and management.

Now let’s see what type of the issues related to change the organization is facing.

## Issues related to Change

Change is a very difficult thing to manage and also extremely difficult to accept no matter how much positive change it is. Change can be of any type from external changes to internal change elements. It can include technology or any legislative change by the government or law makers.

In the case of merger between Barclays PLC and Lehman Brothers this change was brought by the merger of two giants of the financial service industry and also with the presence of two different corporate cultures, two different sets of national cultures and also squaring up of two sets of employees who had different working styles, vision and perceptions driven by their past experiences and cultures.

Since there were a lot of individuals involved in this merger process of Barclays PLC and Lehman Brothers; it made acceptance of change a little of a challenge for Human Resource management as it challenged the selective perception of both sets of employees and in particularly those from Lehman Brothers. These employees had their own habits and way of approaching work which suited to organisational culture which was practiced previously and it also generated a sense of losing freedom in these staff members.

With mergers there is always a fear of unknown which made employees get worried about “ What is going to happen now?” and they must have started to worry about the financial implications it would bring if they were to be fired or made to work in compromising financial conditions.

They did not want to lose the job and career security they had in the past and were unaware of the kind of reception they would receive in the new organisation.

## CONCLUSION

There are many burdens associated with M&A’s. Some of them are aligning the HRM programs, managing redundant staffs, integration of the HRM function is very important and a effective merger would result in a successful merger..

During the process of an M&As the main focus and the attention is always on the economical , financial an the commercial side of the deal, managing human resources is just like a afterthought. Most of the senior executives would indicate that HRM is their greatest asset, but they were overlooked amid the tension of an M&A.

Mantra of a successful merger is managing many integration issues with effective, true and clear communication. Managing and ensuring a effective communications strategy and making sure that the procedures are followed and implemented properly. From pre merger stage, a effective work culture between the middle level managers and the top level executives should be created as this would result in a identifies a potential problem and making sure effective steps are taken that ensures troubleshoots the problem.

In case of Barclays and Lehman Brothers the leadership on part of Barclays was striving and goal oriented as they wanted to break through the U. S financial markets. There were few pitfalls on part of Human Resource department of Barclays as they could not handle the redundancies well which in the later stage affected the stocks of Barclays just four months after the merger was executed.

The ones who were in bigger dilemma were the stakeholders of the organisation. It was difficult for them to analyse the level of risk involved post merger. For them it was a merger of two companies with different holistic approaches all together which could lead to conflicts within the organisation and might result in the failure of the merger in the long run. The time in which the deal was executed was when the recession was at its peak and the amount of capital invested at that time was huge. Though the deal in real terms was done at peanut prices as compared to what it had been in normal circumstances. The fear was of mass exodus of capability within the organisation or change of employees which would not be considered advantageous for the firm in the long run. In context of integration issue Barclays could have implemented an additional business plan in order to reinforce the integration of the investment banking division. If the integration could have been worked well upon than the pitfalls the company had faced lately would have minimised immensely.

Now a day there has been a court case filed against the Barclays PLC merger of Lehman Brothers which has been backed by creditors of Lehman Brothers as they claim that the deal was undervalued and according to different reports this claim is somewhere between £5bn to £10bn. There have been allegations of Lehman Brothers employees being involved in this undervaluing of the business as they had guarded their own vested interests rather than those of the organisation and its creditors. Barclays claim that no irregularity was done and everything was done in a professional and lawful manner.