

# Merger management of kraft and cadbury



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Nowadays, organisations must actively develop and adapt appropriate changes that fit the dynamic environment. This highlights the importance of change management in judging how flexible and responsive an organisation is. As more companies expand and diversify, it is inevitable that smaller organisations are now looking into merger with bigger organisations to boost their share of their market. Bigger organisations are also attracted by the opportunities of entering untapped emerging markets. Therefore, the nature of change that we will be investigating in this report is merger and acquisition (M&A). We will relate this change to US's Kraft Foods Incorporated, as the company recently acquired UK's Cadbury.

The issues we have selected to focus on are in the following order: leadership and communication, cultural change, and staff resistance.

Leadership is chosen because leadership is critical to determine the success of an acquisition. Firstly, due to the huge number of employees involved, the choice of an appropriate leadership style is vital to ensure integration in both companies is a smooth process. Next, an effective leadership will improve the productivity of both companies through the efficient allocation of resources to achieve the organizational strategic goals.

Communication is chosen because the acquisition will raise doubts among Cadbury's employees on their roles in the new company and its vision and goals. The feeling of uncertainty about their future could lead to a dip in their morale and low productivity at work. Thus, it is essential for Kraft to use an appropriate communication strategy to increase the awareness of the employees of any impending change initiatives.

Culture is chosen because of the diverse cultures between Kraft and Cadbury. Cadbury was founded on Quaker ethics to build a socially benign business. This philosophy helped Cadbury to build a world-class brand that is close to the hearts of the British people. In contrast, Kraft is more of a performance driven company with decades of profit driven mergers and demergers. Thus, it is essential for Kraft to identify and value the cultural differences as sources of synergy and efficiency in order to manage the acquisition process effectively.

Staff resistance is chosen because management and employees made up the core structure of the organisation. The policies undertaken by these personnel and behaviour exhibited can have an immediate and vital impact on determining how organisation functions. In the horizontal acquisition of Cadbury, Kraft must also be able to seek equilibrium for integrating the staff from both sets of organisation. Conflicts at management levels, diverse working styles and even motivational approaches are some situations that may hinder and pose challenges.

Before implementing any change initiatives, we recommend Kraft to conduct diagnosis of the three issues mentioned above.

## **2. 0 Leadership and Communication**

### **2. 1 Definition of Leadership**

Koontz and O'Donnell (1955, pg 17) “ the activity of persuading people to cooperate in the achievement of a common objective”

### **2. 1. 1 Adair's Action Centred Leadership**

Duberly (2010) Adair's Action Centred Leadership model points out that a leader can only be successful when he is able to meet all three areas of needs – task, individual and team maintenance needs- by helping his followers achieve the objectives of the common tasks, generate team dynamics and cater to the individual's needs.

### **2. 1. 2 Case-Study**

Rebecca Johnson (2008) The case study of Refresh Yourself illustrates Britvic's use of Adair's action centred leadership to revive their company. For meeting task needs, the use of the balanced scorecard system with job descriptions provided their employees with a clearer understanding of their duties and responsibilities. With that, it helped to set the direction for employees to achieve their objectives.

For meeting individual needs, the use of a performance management system with a core set of behaviours allows the employees to know how effectively they are performing relative to expectations. With a performance-based rewards system, Britvic motivated their employees by rewarding them accordingly as a form of recognition.

For meeting team maintenance needs, a workshop session was conducted for the leaders of Britvic to reflect on their leadership. The insights gained proved to be very beneficial to them in their role as a leader as survey results showed that the employee engagement increased from 55% to 70% and employees' confidence in leadership leapt to 72%.

### **2. 1. 3 Recommendations**

For meeting task needs, Kraft needs to provide a detailed road map which includes specific and clear goals, a detailed approach for achieving these goals, and a list of resources and time required to reach these goals. With that, Kraft and Cadbury can identify common goals so that the employees from both companies can work together on common projects in order for a smooth integration to occur.

In the case of Kraft, the closure of Cadbury's Somerdale plant led to a loss of 400 jobs. This caused the Cadbury's employees' morale to decline as they were fearful of further jobs losses. More importantly, this caused a loss of trust in the leadership of the organisation. Thus, Kraft should make a pledge to them that there will be no further job losses and factory closures to assure them of their job security. This form of assurance will restore their morale and bring about greater productivity within the team to meet the team maintenance needs.

For meeting individual needs, Kraft should acknowledge employees' achievements by offering rewards to keep them motivated. The rewards can be offered in the form of the cafeteria rewards system which offers employees the ability to choose a combination of benefits that best suit their needs.

### **2. 1. 4 Transformational Leadership**

Bass, B. M. (1990) There are four factors which make up a transformational leader, namely, charisma, inspiration, intellectual stimulation and individualized attention.

Firstly, a transformational leader exudes charisma and instils pride in employees within the organisation. He creates vision to guide his followers and as engines of change within the organisation. They are deemed as role models. Secondly, a transformational leader communicates optimism about future goals to inspire his followers.

Thirdly, he uses intellectual stimulation which encourages innovation and creativity in approaches towards identifying and solving problems. Lastly, he shows individualized attention by addressing his followers' concerns and providing them with training for self-development.

### **2. 1. 5 Case-Study**

Catherine Monthienvichienchai (2007) The case study of Korea Ladder illustrates how Jonathan Cormack took on the role of a transformational leader. He united the two organisations behind a shared vision to inspire his employees. They were placed in groups for a discussion to help them realise the shared vision.

He also fostered workplace creativity by conducting workshop sessions which were not a common practice in a Korean workforce. It was used as a form of intellectual stimulation to instil a sense of belonging in the employees. The positive feedback received from the employees proved that it was a success. He showed individualized consideration for the staff when he convinced the union that the foreign executives should not be removed as their experience and strengths possessed were essential to bring the bank to the next level.

### **2. 1. 6 Recommendations**

As the acquirer, Kraft needs to unite the two companies under one vision by offering communication programs that support the shared vision. The programs can be in the form of workshop sessions which creates a participative environment to foster a sense of belonging and involvement among employees. This environment would enable Kraft and the employees to work out a mutually satisfying outcome (i. e. a win-win situation).

Next, Kraft must work at gaining the trust and respect of Cadbury's employees to prevent the defection of talented people. Kraft can do so by bringing talents from both organisations together to work jointly on projects. This will encourage employees to focus on their similarities rather than their differences. The organisation's various departments need to be restructured and processes must be redesigned to align with Kraft's vision.

## **2. 2. Communication**

### **2. 2. 1 Definition of Communication**

Newman & Summer (1977, pg 12) “ Communication is an exchange of facts, ideas, opinions or emotions by two or more persons”.

### **Communication Process**

Duberly (2010) Communication begins when the transmitter encodes a message to convey an idea, the receiver then decodes the message to achieve understanding. The context of a message refers to the non verbal cues conveyed by the transmitter to the receiver. The perceptual filter actually influences the way the message is transmitted. It ends with the

receiver providing feedback to the transmitter to evaluate the effectiveness of the message.

For effective communication on change, we will focus on three communication strategies. Firstly, spray and pray is used when employees are showered with a wide variety of information, and managers pray that staff will pick up what is needed to be done. Secondly, tell and sell is used when management attempts to both inform employees on changes and sell them on why they are required to the passive employees.

Lastly, underscore and explore is used when management engages employees in a dialogue about the change process and seeks to identify obstacles and the misunderstandings that need to be addressed. Lastly, withhold and uphold is used when information is withheld until it is absolutely necessary to release it.

### **2. 2. 2 Case-Study**

Sarah Butcher (2005) The case city of Recovery plan illustrated the use of tell and sell as a communication strategy to persuade the bankers at Citigroup to be receptive to the new performance appraisal and compensation system. With regards to the revised compensation system, Citigroup need to sell to their bankers the idea that bonus payout will not be solely based on reaching financial targets but also dependent upon comprehensible understanding of the shared responsibilities.

Another communication strategy adopted by Citigroup was spray and pray in educating their employees on the ethics and the bank's code of conduct. It is a top down and one way communicating approach as the responsibility of <https://assignbuster.com/merger-management-of-kraft-and-cadbury/>



communicating the acquired knowledge to the rest of the employees falls on the shoulder of 3000 senior employees at Citigroup.

### **2. 2. 3 Recommendations**

For effective communication, Kraft can adopt the underscore and explore method whereby they conduct a transparent and truthful dialogue with the employees to address the differences in culture and to identify any constraints for the change to be implemented. Kraft can also go beyond reassuring the Cadbury employees of their motive regarding the closure of the Somerdale plant.

Since this is a two-way communicating process, the feedback generated from the active employees will be useful in resolving misunderstandings and build consensus on key issues.

Kraft has to be cautious especially when dealing with redundancies. The communications, compensations, and benefits for redundant workers need to be clear and direct so as to build trust and commitment.

In addition, they should also take a closer look at the effects of “ survivors” (remaining workers) who suffered from low morale and decreasing commitment, trust and loyalty towards the organisation after the merger. Kraft can begin by educating and persuading survivors of their “ good” intentions by accounting personally for their action. On the other hand, the survivors need to be informed of their specific job roles and entitlements.

Unless companies try to deal with this “ survivor syndrome” by demonstrating to the remaining employees that the process for determining

redundancies was transparent and professional, and those made redundant were treated fairly and lawfully, the general productivity and morale are less likely to be affected adversely.

### **3. 0 Cultural change**

#### **3. 1 Definition of Culture**

Drennan (1992) defined organisational culture as, “ Culture is ‘ how things are done around here’. It is what is typical of the organisation, the habits, the prevailing attitudes, the grown-up pattern of accepted and expected behaviour.”

And as aptly phrased, culture is the key factor for making or breaking a merger and acquisition deal. (Accenture, 2000)

##### **3. 1. 1 Understanding Organisational Culture**

To better understand organisational culture, different methods are used, one being the “ Onion skin” (Duberley 2010, modified from Schein 1992, 2004) Schein suggests three levels to organisational structure: artefacts (e. g. language, environment, rituals), espoused values (organisation’s strategies, goals, philosophies) and basic underlying assumptions level (subconscious perceptions, thoughts and feelings that are the ultimate source of values and actions).

Onion Skin (modified from Schein)

### **3. 1. 2 Sources of Organisational Culture**

The founder, organisational history, industry and size of the organisation impact its culture. (Duberley, 2010) Organisational culture is also reflected by national cultures and professional subcultures. (Hofstede, 1981)

### **3. 1. 3 Influence of National Culture**

The difference in various elements of a country such as languages, laws, values and attitudes will lead to one nation's culture diverging significantly from another (Hofstede, 1980; Tayeb, 1989; Wilson, 1992)

As an example of national culture, Adler (1997) describes Americans' strong individualistic tendencies evidenced in their language such as “trounced the opposition”, and their human resource management based on individual knowledge and skills.

(Calori and De Woot, 1994; Hemel Hempstead: A European Management Model Beyond Diversity), we understand that though organisational culture in the United Kingdom has similarities with the United States, certain significant differences include the adversarial relationships with labour, the tradition of the manager as a 'gifted amateur' (as opposed to the professionalism of US managers) and the influence of class differences in the firm.

### **3. 1. 4 Cadbury's and Kraft's Culture**

Cadbury's culture stems from its founder of Quaker origins: a paternalistic and philanthropic culture, which also focuses on the well being of groups rather than the individual. This translates to the idea that the leader knowing

what is best for the organisation and its followers: (i. e. leaders as expert father figures). Cadbury's culture of " principled capitalism" is what makes Cadbury great and it has successfully built a socially benign business.

Cadbury has a loyal workforce that consists of staff and managers who have been in the organisation for a long period. Cadbury has a long tradition of high quality production and most of its factories make use of its local community, thereby ensuring that the brand itself is close to the hearts of locals. What this translates to is a family orientated and communal working atmosphere where staff takes strong pride in their work.

Kraft's culture is more performance oriented and is more focused on the meeting of sales and performance goals. Kraft is the quintessential traditional multinational business firm. There is a " mercenary" culture present; most staff and managers perform in relation to the rewards they get. Most rewards they expect are material and on an individual basis. Furthermore, Kraft is very much interested in " destroying competition" and seeks many alternatives and ways to ensure they are always ahead of competitors. Kraft's culture is less communal and the working atmosphere is unlike a family atmosphere, in that people view each other as merely working colleagues and do not share deep friendships with one another. Staff and managers in Kraft are productive and focused in their work and most of them have a passion for business.

### **3. 1. 5 Potential of Post-Acquisition Culture Clash**

The acquisition will damage Cadbury's current culture as the striking differences between Cadbury and Kraft's culture may damage Cadbury

existing successful culture of “ principled capitalism”. This would bring about lower morale and performance and de-motivated staff. Kraft’s competitive and goal orientated culture might cause staff burn out amongst the Cadbury employees as they may feel insecure and uncertain. Kraft’s “ mercenary” culture may create a lack of trust, which will weaken Cadbury staff’s strong loyalty. By joining an American company, Cadbury risks losing UK benefits schemes to American procedures. Also, consumers may feel betrayed by the loss of its original organisational goals, resulting in a weakened brand. However, one advantage is that Cadbury’s shareholders will profit through the acquisition with the world’s second largest food manufacturing company.

### **3. 1. 6 Case-Study**

(Quote your Reference)SCB (an America-originated company) acquired and merged with KFB. SCB was successful with the merging of cultures due to effective communication, the understanding of the differences in cultures and the understanding that “ If you don’t stretch things at all then nothing will change, but if you stretch things too far or too fast you’ll leave people behind”.

The approaches SCB used were the Conciliative, Educative and Corrosive approach, evidenced in the heavy use of consultation, training and use of networking. With this, they successfully overcame problems of national culture and cultural change such as: over-enthusiastic labour unions and differences in management styles, to name a few. What Kraft and Cadbury can learn from this is the importance of communication and flexibility in the use of approaches.

### **3. 1. 7 Recommendations**

Because culture is an essential element in an organisation, culture analysis should play a major role in an acquisition.

Both qualitative and quantitative analysis exists in corporate culture: visual artefacts or manifestations of the organisation, the espoused values and basic assumptions (The “ Onion skin” model) of the organisation have to be properly evaluated. This is essential to better understand the Kraft’s inner-workings and most importantly, its employees and their feelings toward the acquisition. The difference in national cultures of a UK in comparison to US organisation also impacts organisations greatly. Thus, Kraft should exercise patience and understanding to ensure that culture change is implemented and not resisted.

(Whittle et al (1991: 3) We understand that culture change is not a single event but an ongoing sequence of changes. Flexibility is important, as different stages of the change program may require appropriate approaches.

## **4. 0 Resistance and Resentment Felt by Cadbury Employees**

### **4. 1 Definition of Individual and Change**

We will be illustrating the definition using case-study of the acquisition of Cadbury by Kraft. The process involves organisation undergoing a transformative change. This is so as the nature of change is large-scale and fundamental. At the same time, the effect is permanent and can be observed in the long-run.

This issue raises the question of uncertainty which in turn, brought about greater anxiety. According to Schein E. et al. elaboration on Kurt

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Lewin's(1951) Three-Step Model, anxiety can be broken down to two major forms – survival and learned anxiety. The former pushes for change while the latter obstructs change. In order to integrate the change, Schein's theories suggest an inclination towards minimizing the learning anxieties.

Generally, there are three areas we will be investigating with regards to the case-study.

Firstly, the consideration of parochial self-interest which will need us to look into how the various groups in organisation will react upon their immediate interests in the company. With a likely shift in management, Cadbury staff will be reassigned to new job roles and positions in Kraft Inc. this may affect the individuals and probably also management. A possible reshuffling of manpower by HR will see the Cadbury staff go through a series of ' re-employment tests' to allocate them to suitable tasks. This means that potential loss of authority and power especially for the executives and leaders of Cadbury relevant to their positions resulting in a conflict between their self-interests and the organization's interests. Therefore, the move to quit by the staff may be explained by this clash of interests.

Next, the misunderstanding may be another consideration since the top management could be inconsistent in conveying their messages while middle-level managers could have failed to communicate clearly and on a constant basis to employees. They may put off the delivery of what they deemed as negative news. At the same time, employees are interpreted to be in denial and avoid the truth. They are sceptical of success and are unwilling to move out of their comfort zone to embrace change.

Lastly, the tolerance for change is low as the former Cadbury staff may take huge pride in how they go about doing their work. Kraft personnel think otherwise and what they thought to be desirable for the organisation could be in contradiction with the new staff. The former Cadbury staff may reject changes while Kraft personnel likewise will stick to their ways of carrying out tasks.

We will look into the Model of Stages of Psychological Reaction by Hayes and Hyde (1996) adapted from Elizabeth Kubler-Ross(1969) and see how it affects the individual change of Cadbury worker.

#### Model of Stages of Psychological Reaction

When Kraft Inc. based in the America announces the acquisition of UK's Cadbury on February 2010, there was first, feelings of shock among the stakeholders and also the employees of both companies as the ongoing speculation has been realized.

Upon the acquisition of Cadbury, subsequently Kraft drew up plans to smooth the process of integration of the UK-based competitor into the confectioner family. However, at this stage the general sentiments among the people involved are denial. The employees may find it difficult to come out of this particular stage.

Implementation of the changes to the different levels of organisation as Kraft begins to incorporate and find a fit for the new employees, new teams and new managers. At this stage, employees may experience depression and letting go but the main idea is that most personnel will not be able to come



out of the previous stage so they will have regress or stay put in the previous phase. Thus, not all will complete this cycle.

Some may progress beyond and enter the acceptance and testing stage which we believe to consist of majority to be the lower level of staff and employees while the senior management figures most probably regress or stay in the denial stage or even move on to another company highly likely for the case according to the article ‘ 120 of 165 Cadbury Staff Leave Since Kraft’s Takeover’ on webpage [http://www. foodanddrinkdigital. com/sectors/food-manufacturing/120-165-cadbury-staff-leave-kraft-takeover.](http://www.foodanddrinkdigital.com/sectors/food-manufacturing/120-165-cadbury-staff-leave-kraft-takeover)

### **Case Study**

(Quote your reference) In January 2005, Gillette was acquired by P&G. The merger resulted in around 6000 job cuts which was equal to 4% of the combined workforce of the two companies.

The process of post-merger integration of these two companies faced an inevitable resistance. A number of people were told that they had joined what they thought was a long-term employer with sufficient size and famous brand. They felt that Gillette was a leader in the industry on many fronts.

Not only were some Gillette staff personally unprepared for the takeover, because they often felt that their company was the better one, they also did not believe in the “ tremendous opportunities” that were promised by top management from P&G. Gillette employees had to face the unpleasant dilemma of whether moving to P&G (and coming to terms with the changes) or leaving the company.

P&G and Gillette essentially had two different corporate cultures. Employees of Gillette hoped that Gillette, because they had been so large and successful, would be able to influence P&G post-acquisition. But hoping for that “ was a complete utopia,” as one former employee said. Gillette was absorbed into P&G and very little from its culture was left, another said. Rather than change, employees voluntarily but reluctantly left the jobs they thought they would have until retirement.

(Quote your Reference) In a joint press release at the time of their merger in 1997, the president of Daimler-Benz, Jürgen Schrempp, and the president of Chrysler, Robert Eaton, declared that “ there will be no plant closures or layoffs as a result of the merger.” However in 2000, the company announced there would be between 20000 and 40000 job cuts in the North American Chrysler division. Schrempp, by then the DaimlerChrysler president, claimed that the company was overstaffed by at least 6%.

Announcing redundancies two or three years after the initial deal can cause even greater stress to the employees who thought that they were survivors. Employees are better prepared to handle the bad news straight after the transaction than two years later, after the newly merged culture has started to take shape when they thought they could rely on management’s assurances regarding the merger, often accompanied, as in the Daimler/Chrysler example, with promises of no future redundancies.

#### **4. 1. 2 Recommendations**

The negotiation and agreement approach would be much recommended. The resistance stems from Kraft’s inability to walk the talk of retaining the

Somerdale plant in operation. On top of walking the talk, they are expected to keep behaviour consistent with messages, keep commitments and promises, and demonstrate some energy and enthusiasm regarding the change. Only then will team members feel they can take the next step of commitment.

Kraft has to deploy the soft power to facilitate integration between the two cultures. The soft power provides an effective mean for Kraft to reach out to employees at a personal level. This promotes the establishment of a long-term positive relationship as empathy and communicating at employees' level builds trust and strengthens their commitment to the organisation.

## **5. 0 Conclusion**

In view of the acquisition of Cadbury, it is critical for Kraft to establish an effective leadership team to pave the way for a change programme. Kraft can adopt Adair's action leadership to have an overview of the three areas of need and ensure that they are met adequately. The success of the acquisition is also influenced by how well Kraft communicates to their employees on the change. Thus, Kraft should use the underscore and explore method to address the possible challenges and problems caused by culture differences.

Due to the diverse cultures of Kraft and Cadbury, “onion skin” method can help Kraft identify the differences to prevent culture clash. With this in mind, Kraft can set directions for the management and employees to realign their styles of working to fit the company's vision. This will pave the way for Kraft

to achieve their objectives and develop a strong standing corporate culture at the same time.

Effective HR management may be a viable solution but in the long-run, in order to foster a harmonious relationship and spirit of unity among the management and employees. It is necessary to inculcate positive employee attitudes and promote willingness to learn with the acceptance of changes. Eventually, the organization can help staff to align their interests with those of the company so as to keep motivation high level across all departments.

## **6. 0 Appendices**

### **6. 1 List of References**

References for Leadership & Communication

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## Lecture Notes

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