

Merger and acquisitions theories in management



Management theory and practice

Mergers and acquisitions are a main means by which single and individuals are able to grow and then enter the new markets. After this happens, the competitive structure of the whole industries may alter radically in a span of a short time. Mergers are the unifications of two or even more firms into forming a new one whereas acquisitions are the company's purchases of the majority of the shares from another. Mergers and acquisitions can also represent a major mechanism through which the firms that are national are able to become multinational firms. The cost and benefit analysis of the mergers and acquisitions affect the decision by the managers and the shareholders of whether to take up a specific merger and acquisition. The decision by the employees also can lead to the acceptance or refusal of the merger and acquisition (Paul & Simon 2).

In this paper, I am going to research on why the employee-related issues prevent the succeeding of a merger or acquisition. The modern business environment is characterized by change that is continuous in nature. Every organization is considered as a system where work, process, system, people are all aligned in order to ensure that the unit of the individual, individual and overall systems are well fit to deliver the strategies of the organization. The objective of the integrative process is to integrate people, processes, technologies and strategy without interrupting service, quality or product and not only to combine financial standing of any two companies.

Employee's issues in relation to the integration phase always relate to the human capital related integration issues such as integration of the culture of the organization, leadership, organization structure and design, processes

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and systems and retention of the key talent. The other important issues are effective planning for the purpose of integration, employee communications, and the selection of good leaders to manage the business combination and the creation of practices and policies for knowledge sharing and learning and also the transfer. The failure to address the issues that concern merger and acquisition impacts the new and current organization very negatively at the stage of post-merger in two levels.

One of these two levels is the individual level and the reactions of the individual employees are insecurity, powerlessness, alienation, a drop in productivity, loss of energy and the rise in absenteeism which increases turnover and profits. Other stress factors include the performance evaluation criteria, the loss of control over the life of the professional and also the alterations in the reporting relationships which would also impact the merger or the acquisition adversely or negatively. There are also many other psychological impacts which result from the merger activity. These are lifestyle instability, loss of confidence, depression, anxiety among others and these symptoms may lead to large-scale industrial strikes at times (Nilanjan and Bhattacharya 143). From this we can find that due to these impacts, the employees can resist the mergers and or acquisition in their companies.

The other level is the corporate level and at this level the impacts are long-term in the cultural integration, organization structure and design, processes and systems. The failure to tackle these issues in the phase of planning of the merger process can lead to outcomes such as benefits integration, high financial costs, incompatible HR plans and policies, inadequate communication to the employees, insufficient provisions and reserves for

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risks that had not been discovered and/or improperly evaluated, inefficient financial accounting for the integration costs, the loss of loyalty of the employees leading to the high turnover rates, the dilemma of the workforce reduction, reduced productivity and finally leads to lowered employee morale (Nilanjan and Bhattacharya 144). These issues are the ones that drive the employees to be against and protect the mergers and acquisitions.

The strategic combinations of the mergers and acquisitions have a dramatically greater chance of success in terms of providing the added value to all employees, and shareholders. The success could also be experienced in justifying of the acquisition premium when they are led, designed and implemented with these four elements. The first element is the integrative perspective in which the mergers need to be seen as combinations that try to balance the interplay of the organizational architecture and organizational strategy with the guiding principles of the management of the change.

The second element is the designed integration which is the scope, intensity and degree of the integration and should be driven by elementary business case for the merger or acquisition which defines integration process. The third is the differential leadership because leadership is very vital and different leaders have different roles. The leadership roles should be considered and assigned at the initial stages because this could bring confusion at the late stages. Lastly, the expanded due diligence factor is considered where the organizational issues are discussed. In this case, the organizational diligence is made a crucial part of the merger and the acquisition chain of events as is the due financial and legal diligence.

An example of the job losses caused by mergers and acquisitions and also the reduction of salaries of the members of banks is the European banking sector. Since the start of 1990s, the European banking sector has witnessed massive job losses and the decrease of the salaries of the employees who were left. The impact of these job losses has been greater in the Northern Europe rather than in the southern Europe. The employment in the sector of insurance has also been affected as a result of mergers and acquisition. The nature and quality of the employment has greatly changed from the year 2000 in Europe (Paul and Simon 2002: 45). The reductions of employment have affected the branch administrative and networks functions. The older workers with the conventional banking skills who do not qualify and therefore not transferable easily to the new developed and centralized functions, for example those that work in the call centers, are affected adversely. These are the people who may rise against any mergers and/or acquisitions and also the banks may consider these people and reach a decision not to accept any mergers and acquisitions.

Mergers and acquisitions have been known to accelerate corporate practices because the enterprises tend to review the whole cost structure entailing the mergers and acquisitions with the aim of identifying the very maximum savings that are possible. The job losses have increased greatly from 17.5% to 24% due to many mergers and acquisitions.

A merger and/or acquisition also referred to as a takeover invalidates in many ways the employment contract. The employee works for someone else without having taken the required steps to change his or her employers. This brings into clear view in an emphatic manner the one-sidedness of the

employment relationship and also the idea that the employees do not have any control over the decision of who their employers are. The mergers and/or acquisitions are described as the legitimate means for breaking the implicit contracts in the view of restructuring (Paul and Simon 2002: 183). The mergers are seen as avenues to disrupt job security that the employees have held for long periods and therefore are bound to disrupt the process of mergers and/or acquisitions.

These mergers and acquisitions appear to the employees as deliberate strategies to violate the internal norms and also as a hard, brute exercise of powers and therefore they can prevent the succeeding of the mergers and acquisitions. The integrating of the different company procedures and systems requires the harmonization of the different aspects of terms and conditions that apply to the employment signings. These include job titles, pay scales, job descriptions, entitlements and benefits, supervisory and reporting lines are all subjected to revision in order to ensure that there is common practice in the new mergers and acquisitions. These changes may make the employees to reject any mergers and acquisitions.

The mergers and the acquisitions upset the links between explicit and implicit contracts in accompany that was in the past based on trust between workers and managers, they are presently founded on assumptions and beliefs regarding mutual responsibility between employees and employers. The integration, merger and acquisition also requires the harmonization of the different aspects of conditions and terms of the employment to ensure that common practice in the combined organization which may alter the

existing practices of the human resource and management of either or even both of the organizations.

Workers or employees have also considered the lack of incentives due to mergers and acquisitions. There is no transparency in the reward systems and the mergers also lead to contradiction between performance assessments that focus on personal contribution and the objectives that require team-based work. The employees therefore call for better balanced team-based and individual rewards. This is supported by trade unions where they argue that the alterations to the psychological contract which include erosion in the job security are not well reflected in the enterprise reward systems after the mergers and acquisitions. This decreased job security, increased workloads, stress and anxiety are other significant consequences of the heightened merger and acquisitions activity. These factors coupled with lowered morale and also a deterioration of the organization performance has led the employees to be against the implementation of mergers, takeovers and acquisition.

This human side of the acquisitions and mergers is all about the overall impact that mergers and/or acquisitions have on the employees in a certain company. These impacts on the psychological difficulties that the employee's experience, the culture clashes which may emerge in companies during the post-merger integration period. Finally the ways in which these outcomes manifest themselves that include communication breakdowns, there is also the "we-they" mentality that occurs between the inclusive organizations in the merger and acquisitions, minimized commitment, reductions in productivity, organizational struggles for power and also office

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politicking and at last the loss of the key and main organizational members. All these factors combined include the employee issues that affect the realization of mergers and acquisitions (Anthony and James 3).

Through research through face to face interviews, a writer concluded that the employees were an important asset to the companies and that they should be considered when the management decides on mergers and acquisitions. Through an interview with an employee of a company that had undergone acquisition, Hayes was told that the employees would not make any move because they were told that their methods were outdated and that they would have to readjust to the new company's way of conducting their activities. He indicated that when he tried to complain to the corporate about the situation, he was warned that if he squawked too loud, his position would be in jeopardy. This resulted to the destruction of the company morale and with time, the main people started leaving and it did not take much time before he also resigned (Hayes 1981: 131). If the company had taken into consideration all complains of their employers, they would have retained their experienced workers and this would increase the productivity levels.

Acquisition and mergers can adequately transform the organizational processes, systems, structures and also cultures of one or both of the companies involved that the employees will often feel confused, frustrated, frightened, stressed or even frustrated and therefore whenever the employees of a particular company here of any merger and/or acquisition they are ready to prevent the realization of the same. On the personal level, these feelings often lead to psychosomatic difficulties, sense of loss, marital discord and at the extreme level, they can lead to suicide. On the level of <https://assignbuster.com/merger-and-acquisitions-theories-in-management/>

organization, these feelings are manifested in lowered productivity and commitment, increased disloyalty and dissatisfaction, increased turnover among the key managers, power and leadership struggles especially among the managers who remain in the organization and finally an increase in the dysfunctional work-related behaviors at all the levels of the hierarchy. These impacts on the employee and by the employee are issues that negatively affect the mergers and acquisitions.

It is reported that in the 3000 and above mergers that occurred in the year 1985, so many employees estimated to be more than ten thousand lost their jobs and others were forced to accept early retirement (Kanter and Seggerman 1986: 17). It was also estimated that by the year 1990, there will be 2500 savings and loans and 5400 banks that would be involved in mergers and these would affect more than 900, 000 people in the United States. In the year 2009, it was noted that there were decreasing mergers and acquisition activities and that also the credits were tightening. One of the reasons of a successful merger and transaction activity is the compensation which is never done and if it is done it is only given to the executives.

The compensation can be a powerful tool to motivate the management and its team to influence positive outcomes in the activity involving mergers and acquisition. This has not been the case in the recent past and the employees are laid off without being paid well leading to the negative feelings that they experience shortly afterwards. This can explain the reduction of the merger and acquisition activity because the employees through their managers are able to prevent the realization or completion of a merger and/or acquisition owing to the fact that they are not compensated. In the recent past there

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was the acquisition of Merrill Lynch by the Bank of America, there was a problem in the executive pay and compensation and this led to a very expensive roadblock to the desired transaction.

A report by the PricewaterhouseCooper indicates that the merger and acquisition activity has decreased 86 percent from the year 2008, the previous year. In addition to these statistics, when the High Court approves the schemes of arrangement of a merger, it takes into account the workers interests. The scheme of arrangement must provide for adequate protection for the employees service benefits and conditions. If the scheme shows otherwise, the High court does not agree to the terms and conditions of the merger and therefore we find that the issues of the employee are considered.

The organizational behavior is always reflected by acquisition behavior, the relative size and the cultural compatibility. Global mergers and acquisitions are the main corporate strategies which the multinational corporations use to diversify, expand or even consolidate their businesses. In the year 2006, there was a recorded worldwide annual value of the acquisition transactions exceeded US \$ 4 trillion (Larsen 2007: 23). This trend was also recorded in the year 2007 where the worldwide transaction value of the acquisitions in only the first 3 months ranged at US \$ 1. 13trillion which was the highest busiest recorded quarter ever in history (Saigol and Politi 2007: 145). However, almost 83%of these transactions were unsuccessful (KPMG, 1999; Sirower 1997).

A considerable amounts of research developed that the failures were caused by the absence of a national cultural fit which is the cultural distance of the workers and employees (Rottig and Reus 2006: 340). This may lead to cultural problems and clashes among the involved workforces. This in return lowers the employee cooperation and commitment, cause voluntary turnover of the acquired top managers and could also complicate the process of post-acquisition integration (Very and Schweiger 2001: 22). The cultural distance might have some positive results but it is among the high points that lead to the failure of the mergers and acquisitions and it is an employee-related issue.

The organizational culture which is defined as the interdependent and interrelated system of practices, beliefs, norms and assumptions that the members of the organization bear collectively should be put into consideration before a merger and/or acquisition because when they are altered extensively after the merger, the employees will tend to work against them and this will not promote success of the merger and/or acquisition. The assumptions, norms and practices could be unconscious which are learnt through the socialization of the organization and often reflect the shared perceptions of the daily practices and also determine the things that are carried out within an organization (Gertsen, et al. 1998: 123).

An example is the acquisition of the Tokyo Bank by the Mitsubishi Bank in the year 2003. These two organizations had very dissimilar organization cultures. The employees of the Mitsubishi Bank shared a common cultural norm of being to work on time, wearing only white shirts while at work and also thanking their department supervisors and managers in person for any

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monthly pay checks. But in contrast, the employees of Tokyo Bank were not used to strict dress code and being reprimanded for getting to work late and they also had no duty to carry out a thanksgiving ceremony as they collected their monthly salaries. After the acquisition activity, a huge number of the employees of the Tokyo Bank were alienated by the strict culture of the Mitsubishi Bank and they left the combined company voluntarily. This was in the United States. This is an example of how the employee-related issues could lead to unsuccessful mergers and acquisitions.

Poor communication between the employees of the same company after a merger or an acquisition could lead to problems of integration in both the domestic and the international mergers and/or acquisitions. This may cause unsuccessful mergers and acquisitions and it is an employee-related issue. On the other hand, the international acquisitions are characterized by ethnocentrism; nationalistic attitudes; xenophobia and language barriers (Vaara 2003: 864) and these could lead to the failure of the mergers and acquisitions.

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