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## The role of contextual variables in successful post-merger integration: a review and future directions

Verma Rajeev (corresponding author)

Fellow Participant in Management

Indian Institute of Management, Indore, India

Email: [f09rajeev@iimdr.ac.in](mailto:f09rajeev@iimdr.ac.in)

Verma Jyoti

Doctoral Student, Institute of Management

Nirma University, Ahmedabad, India

Email: [jyoti.gurukul@gmail.com](mailto:jyoti.gurukul@gmail.com)

### Abstract

This paper attempts to investigate what actually influences a merger and acquisition (M&A) successful implementation and post-merger integration. Despite the significant research interest on this topic, there is much to explore in this area. The paper points to new areas of exploration in the existing domain of action research. Based on the existing body of knowledge, the present study explores the influence of a range of factors including organizational, individual, technological and environmental, with intent to investigate the gaps in the existing body of knowledge. It appears that human behavioural and organizational dynamics have been comparably lesser explored than the technological and strategic dimension in this area. However, looking into the future trends, this paper has come up with research objectives that can affect the interventions process and enhance combination success. Future directions for study and potential linkages with other variables have also been provided.

**Keywords:** Merger and acquisitions, merger syndrome, organizational change, post-merger integration

### 1. Introduction

Mergers and acquisitions (M&A) have been at the centre of organizational development research for at least the past two decades. They are increasingly seen by firms as a relatively fast and efficient way to expand into new markets, to acquire new competences, to create economies of scale, to globalize, to spread the risk or even to dominate existing markets (Papadakis, 2005). Yet their success is by no means assured. Despite the enormous body of prescriptive research outlining what to do to succeed in M&A's, a robust understanding is still waiting. The list of possible factors influencing M&A's seem to be endless including such factors as unrealistic expectations, poor planning, talent lost or mismanaged, poor communication, cultural clash, changing external environmental conditions, integration difficulties etc. (Schuler and Jackson, 2001; Brouters, Van Hastenburg and Van Den, 1998; Pablo, Sitkin and Jemison, 1996; Bryson, 2003; Kerr, 1995; Burns and Rosen, 1997; Cartwright and Cooper, 1995; Risberg, 1997; Chatterjee, Lubatkin, Schweiger and Weber, 1992; Griffith, 2000).

Research shows that, fewer than 20 per cent of corporate combinations achieve their desired financial or strategic objectives (Davidson, 1991; Elsass and Veiga, 1994; Lubatkin, 1983). Many factors account for this disappointing track record – paying the wrong price, buying for the wrong reason, selecting the wrong partner or buying at the wrong time. However, despite the significant research interest, understanding of the antecedents of successful M&A's is still incomplete. This can be partly attributed to the fact that sometimes researchers tend to take a partial view of the phenomenon. With few exceptions (Kusewitt, 1985; Larsson and Finkelstein, 1999; Hunt, 1990) most of the existing research focuses on selected domains of interest while paying utter attention to other potentially influential factors contributing to the organizational change. In the organizational development perspective, two organizational change models have been contributed by Lewin (1947) and Tannenbaum and Hanna (1985). The Lewin model is the three steps of unfreezing, changing and

refreezing. On the other hand Tannenbaum and Hanna model influences the design of interventions to facilitate mergers and acquisitions. Both model list a number of contingencies and environmental factor affecting the M&A process.

In light of above developments, the objective of the present study is to investigate what actually influences a merger and acquisition's (M&As) successful implementation. Further, it also tries to identify the existing gaps in the literature review. The study reviews the organizational, individual and technological characteristics along with environmental characteristics that influence the post-merger integration process.

This paper is structured as follows; first, we review various studies underlying merger and acquisition process and its possible antecedents. Then after describing the research gaps and future research avenues, we came up with the research questions and their rationale. We conclude with a discussion of theoretical and managerial implications and direction for future research.

## 2. Integrating streams of research on M&A's

Research on M&A has grown exponentially over the past decade. It is therefore understandable why researchers from a broad range of disciplines are attempting to approach the M&A phenomenon. (Hunt, 1990; Larsson and Finkelstein, 1999) and others have attempted to classify the studies on M&As, according to the discipline from which they originate, as emerging from the scholars of (a) economists and finance scholars; (b) strategic management scholars; and (c) behavioural scientists. Here, an attempt has been made to review the main properties of each of these streams.

**Economists and finance scholars:** Leading researchers in this stream (Hall, 1979; Mahajan et al., 1994) sustain that M&A can add value to a company and maximize its market share and profitability, through size (economies of scale) and market control (higher market share, lower dependency). Their research hypotheses are tested using mostly accounting based and/ or stock-market based measures. Part of this research stream explores the motives for M&A (Pablo et al., 1996; Brouthers et al., 1998; Hunt, 1988) in the perfect market competition.

**Strategic management scholars:** Here researchers mostly studied issues relating to the method of diversification, focusing on the consistency of the M&A to the business strategy (Clemente and Greenspan, 1998; Clarke, 1987; Ramaswamy, 1997). A second line of research (Fritzon, Lukefahr, Asin, Bhatia and Dashi, 2000; Ashkenas and Francis, 2000; Rifkin, 1998; Fisher, 1998), focuses on the process of the M&A (e.g. selection of target, successful implementation etc.). A large part of this body of research offers prescriptive advice on making successful M&A (Marks, 1994; Anslinger and Copeland, 1996; Gall, 1991; Fairfield, 1992).

**Behavioral scholars-** This research stream mainly deals with two levels of analysis i.e, organizational and individual. The first is that of organizational culture (Schraeder and Self, 2003; Appelbaum et al., 2000b; Burns and Rosen, 1997; Bijlsma-Frankema, 2001; Chatterjee et al., 1992; Griffith, 2000). Here researchers mainly focus on such topics as the similarities/differences in organizational culture and post merger issues A second line of research explores the impact of M&A on such subtle issues as personnel morale and career development (Nikandrou, Papelexandris and Bourantas, 2000; Kerr, 1995; Bourantas and Nicandrou, 1997; Appelbaum et al., 2000a).

## 3. Review of remarkable contribution to the M&A literature

In one of the path breaking contributions, organizational researcher and consultant Philip Mirvis and Mitchell Lee Marks have studied the post-merger integration process in more than 50 organizational combinations over the past 15 years (Marks and Mirvis, 1997; Mirvis and Marks, 1992). These mergers

and acquisitions span all industry groups, involve organizations of all sizes, covering both friendly and hostile deals in multinational scenario. There research found that in the vast majority of mergers and acquisitions, the institutional norms interfere with the ability of operant resources to achieve synergies and financial gains (Marks, 1997). These are observed as (a) problem of underestimating the multidimensional integration issues while going for merger; (b) problem relating to the destruction from the core competency of the firm in the post-merger status; and (c) underestimating the issues relating to the operant resources especially cultural clashes triggered with individual work behaviour. To sum, we list the major research streams held in the field of post-merger integration that focuses on major issues as mentioned in table 1.

The research from (Marks and Mirvis, 1985) found the “merger syndrome” to be a primary cause of the disappointing outcomes of otherwise seemingly well-conceived mergers and acquisitions. The terminology merger syndrome has been used for the situation originated from cultural clashes in the combining organizations and hence job stress originating from burnout. It is often triggered by the unavoidable unsettled conditions in the early days of combinations. To sum up, if the syndrome is allowed to go unchecked, it can lead to poor firm performance and operational efficiency.

However, research shows that the sign of human stress are present in all combinations of M&A, even in the friendliest and best-managed ones (Marks and Mirvis, 2010). Hence, the manifestations of the merger syndrome appear in all varieties of corporate combination, be they mergers or acquisitions, friendly or hostile, off shore or on shore, involving companies of similar or different sizes, etc. This leads to increased burnout, distrust among employees and hence decreases the performance. Only 20 per cent of employees trust what senior management tells them (Kanter and Mirvis, 1989). These finding has also been supported by other contemporary researchers (Bryson, 2003; Kerr, 1995; Burns and Rosen, 1997; Cartwright and Cooper, 1995). However, research (Marks, 1997) shows that the personal involvement of HR executives in organizational mergers and acquisitions has helped to reduce the stress relating role ambiguity and overload.

#### **4. Recent trends in merger and acquisition activity**

Looking into the available literature and research reports, the merger and acquisition activity can be clearly understood across the timeline. Broadly, the drivers of the M&A activity can be classified under five subheads as,

**Business Strategy and Core competency:** The M&A deals are more strategically driven. Increasingly, the decision to combine organizations supports a clear and intelligent corporate strategy based on the core competency of the firm.

**Technological Factors:** Technological advances are driving deals. To keep pace with rapidly changing technology, some organizations find it cheaper and quicker means to acquire rather than develop in-house.

**Changing government policies:** Changing regulations, social policies and customer demands foster consolidation activity throughout industries. Financial services, auto manufacturing and telecommunications are examples of industries being transformed through merger activity.

**Stakeholder co-value creation:** Companies are now moving from being product centric to consumer centric. The latest in the row is co-value creation with their customers. The process required lots of managerial experience and hence to broaden their perspective companies are now moving for M&A to maintain their competency in the business.

**Operant resources:** Human assets are even more crucial to merger and acquisition success than even before. In the information age, the value of many firms lies in the intellect and creativity of human assets, what is referred to as human capital. Companies are becoming more knowledge centric, hence need for better informed manpower is ever increasing.

## **5. Gaps identification**

With the thorough review of literature, we are able to identify some of the prominent research areas. However, there are some issues which have been dealt less by the contemporary researchers. For the ease of study we can study these issues in the context of, organizational, individual and technological determinants. Looking into the previously done studies, it has been found that the contextual factors have received enough empirical attention (Cartwright and Cooper, 1995; Appelbaum et al., 2000a; Marks, 1997; Nikandrou et al., 2000). However, these studies have become lopsided as they have been focused on either, organizational or individual factors (Chatterjee et al., 1992). The communication effect and their role in the communication process have been studied by Clemente and Greenspan (1998) and Hubbard (2001). However, there is a scope to study the role of organizational size, frequency of development interventions on the merger and acquisition process.

Research shows that the dysfunctional effect of communication may lead to the employee burnout and hence affect the post merger performance of the firm. On the other hand positive communication could lead to the reduction of fear (Appelbaum et al., 2000a), helps in the creation of a better working climate (Viscio, Harbison, Asin and Vitaro, 1999), in understanding the cultural differences (Gall, 1991), and to the creation of a climate of mutual trust between employees and top management (Nikandrou et al., 2000). However, this communication has been studied within the preview of the organizations. There is a scope to study the impact of external communication on the success of merger. Similarly, less literature has been found on the impact of organizational development intervention on the organizational uncertainty. As employees are the most important operant resources of the firm (Chaudhuri and Tabrizi, 1999), their loss might impact negatively its competitiveness and long-term viability.

Based on the above literature review and subsequent identified gaps, we propose research and future directions in this study area. A model has been provided integrating all the factors (organizational, individual and technological) along with environmental factors to come up for future research avenues in the area of merger and acquisition.

## **6. Research and future directions**

According to past research, the successful implementation of an M&A is influenced by a multitude of factors importantly, strategic, economic, and behavioural (Papadakis, 2005). These can be located in the external corporate environment (hostility, technological turbulence, firm competition), the characteristics of the M&A itself (consequentiality, premium paid), the organizational characteristics (OD intervention, experience, relative size, formalization of decision-making processes, communication program, frequency of communication) and the human resource aspects (behaviour, leadership, trust, motivation). Given this background, future research could focus on extending their link to examine what type of merger and acquisition strategy a firm follows, given specific environmental contingencies.

It is particularly important for companies to adapt as per the changing business environment. The competitor reactions as well as the constantly evolving business environment are apt to create problems and demand actions to safeguard profits. These actions may be in the form of R&D expenses,

technological advancements or changing role of leadership (Marks, 1997). However, these environmental contingencies during M&A often detach the attention of top managers from normal business, as well as from the changes in the business environment (Clemente and Greenspan, 1998; Gall, 1991). This may prove risky in cases of highly competitive or even hostile markets, where competitors will attempt to take advantage from the company's temporary inertia (Gall, 1991). Competitors are seeking to benefit from any temporary inertia, by taking up any dis-satisfied clients (Fritzson et al., 2000) or even hiring it's most competent managers. Hence our obvious research objective comes out of this is as,

RO1: To study the effect of environmental contingencies on the implementation of M&A.

One of the many reasons why companies engage in M&A is to acquire new products or to improve their new product development capability (Hitt, Harrison and Ireland, 2001; Mahajan, Rao and Srivastava, 1994). However, in several instances new products may quickly become obsolete before the acquiring company can incorporate them in its product portfolio. This is particularly true in cases of rapid technological change or even in cases where companies decide to downsize headcount in an effort to reduce costs (Chaudhuri and Tabrizi, 1999). Moreover, cost cuttings in the R&D department often follow a M&A, due either to increased corporate expenses or to the expectancy that the M&A itself will provide for the necessary innovation (Hitt et al., 2001). This can prove quite risky during periods of intense technological change, because competitors may not exercise the same inertia (Clemente and Greenspan, 1998). Hence, these rapid technological changes may be studied in reference to the M&A process, as

RO2: To study the effect of rapid technological change in the industry on the process of M&A.

A decisive moment in the whole M&A process is the selection of the target company (Hubbard, 2001; Clemente and Greenspan, 1998; Hitt et al., 2001). At this stage, benefits and risks from the M&A should be assessed and the magnitude and consequentiality of changes should be evaluated (Viscio et al., 1999). As M&As should not be seen as short-term corporate crises, but rather as long-run processes of business change, with broad direct and indirect consequences on all stakeholders (Cartwright and Cooper, 1995), all stakeholder should be well taken into the confidence. Full understanding of the expected benefits and risks helps to better understand and plan for the required changes and therefore contributes to a smoother transition to the new conditions and a higher chance of fewer problems during implementation. Hence we propose,

RO 3: The study of consequentiality of stakeholders returns in light of M&A.

High premiums for acquisitions are generally considered to be negatively related to the success of the M&A (Sirower, 1997). This occurs because even with the right strategy, estimated synergies are hard to accomplish. Sirower argues that in cases where the premium exceeds 25 percent, the company assumes a significant risk. Other researchers argue along similar lines (Clemente and Greenspan, 1998; Hubbard, 2001). However, the research areas need further studies hence we propose the following,

RO 4: To study the relation of premium amount paid for acquiring with the success of the M&A.

As M&A is usually a very complex phenomenon and call for demanding processes, it results in unique learning experiences at employee end (Hitt et al., 2001). It has been argued that experience gained by top management from previous M&As, can contribute to the success of subsequent agreements (Bruton, Oviatt and White, 1994; Viscio et al., 1999; Appelbaum et al., 2000a; Hitt et al., 2001). Experience from previous M&As is particularly important in the case of distressed firms (Bruton et al., 1994). However, much study has not been done in this area hence we propose the following,

RO 5: The study the relation of previous experience of top management with the firm successful post-merger implementation.

It is important to have a clear implementation strategy before proceeding to an M&A (Viscio et al., 1999; Clemente and Greenspan, 1998). A well planned M&A process, based on corporate needs and the definition of financial and strategic objectives, usually leads to a more effective post-merger implementation (Viscio et al., 1999). Key among these may be the long term vision and mission of the company, a variable that can be used as a proxy measuring the extent to which the acquired company is in line with the acquiring company. Hence we can propose,

RO 6: The implementation of M&A should be in line with the long term organizational goals.

Several researchers have studied the impact of firm size on the success/failure of M&A (Larsson and Finkelstein, 1999). It has been found that the greater the size of the acquirer in comparison to the acquired the smoother the implementation process, and the lesser the post-merger integration problems. Another line of research (Diven, 1984; Ravenscraft and Scherer, 1987) focusing on synergies found that the larger the size of the acquired company in comparison to the acquirer the more managerial attention is granted and the higher the possibility of realization of potential synergies. However, in the majority of studies empirical results are mixed and in several cases no statistical significant relationships have been found (Bruton et al., 1994; Viscio et al., 1999). Hence we posit,

RO 7: To study the impact of size of acquiring firm on the success of M&A.

The management of human resources proves more and more important for the outcome of an M&A (Marks, 1997). M&As are not just financial transactions, but rather processes which may significantly affect the employee behaviour (Cartwright and Cooper, 1996). Oftentimes, employees are overwhelmed by stress, fear and anxiety about their own career path (McBain, 1999; Griffith, 2000). This may result in reduced productivity, increase of absenteeism, low job satisfaction, resistance to change, and a general negative behaviour (Nikandrou et al., 2000). This situation has been characterized as merger syndrome (Marks, 1997). As the human side of M&As is often disregarded this is one of the main reasons of M&A failure (Appelbaum et al., 2000a). Hence, it will be interesting to study that,

RO 8: The general negative behaviour of the employees in the acquired firm is one of the reasons for M&A failure.

The handling of employee resistance to change is considered of great significance in the successful implementation of the M&A (McBain, 1999). Often, companies need to go for post merger OD intervention to deal this issue. A systematic effort is required to approach and inform employees and to create an internal climate of fairness (Fairfield, 1992). Hence, the intervention and organizational communication program could be vital in the success of the M&A (Bryson, 2003; Smith and Hershman, 1999; Gall, 1991). These interventions may touch various aspects of corporate communication such as honesty (Hubbard, 2001; Appelbaum et al., 2000a; Burns and Rosen, 1997a; Nikandrou et al., 2000, consistency (Hubbard, 2001; Clemente and Greenspan, 1999), and management reliability (Nikandrou et al., 2000). Therefore, researchers recommend that companies create their own organizational communication change programme and communicate with organizational members as soon as possible about the impact the M&A. Hence we propose,

RO 9: To study the effect of post merger OD intervention on the employee resistance.

The organizational effort to effectively communicate to various stakeholders is among the top priorities following an M&A (Clemente and Greenspan, 1998; Gall, 1991). The announcement of any M&A

usually increases employee uncertainty and raises questions (Hubbard, 2001; Risberg, 1997). Failure to quickly communicate with employees could result in the spreading of sometimes-unfounded rumours, while anxiety increases and may lead to negative attitudes towards the M&A. Implementation success, to a large extent, may depend on the effective communication from the first minute of the announcement of the deal (Cartwright and Cooper, 1995). This leads many researchers to argue that the communication program should be designed before the closure of the deal, always having in mind the characteristics of the personnel, the corporate culture and the forthcoming changes (Gall, 1991; Cartwright and Cooper, 1995). Hence we posit,

RO 10: To study the relationship between corporate communication and post merger Integration

In the implementation of merger, the key figure is the unit president who heads the combined organization (Marks, 1994). Leadership extends beyond the structural integration of companies to the joining of people. Top leadership effective consultation between various parties in a merger assists putting their personal imprint on people management in various ways: dedicating executive time and focus; putting together a leadership team; focusing management on success factors; creating a sense of human purpose and direction; and modelling desired behaviours and making future roadmap. Hence we posit,

RO 11: Merger success is determined largely by top-level leadership.

## **7. Insights and ways forward**

In practice, the crisis of combining organizations is addressed by interventions which foster combined planning and implementation. The organizational talent and energy get focused through a transition management structure and process that yield a thorough job of analysing and recommending options for combination planning and implementation. While most transition teams make possible contributions to post-merger integration, they can be excellent vehicles for arriving at synergy-building and cost-saving decisions. The problem lies not in the concept of transition structures, but in their execution. These are the strategic opportunities in the combination that must be well taken as the companies come together. If the process is intervened by some OD practitioner or consultant, it goes more than just articulating success factors. However, the consultant assists the top management in monitoring the decisions and hence capitalizing on opportunities inherent in the combination. If required, consultant may help employees to arrange venting meeting.

To sum up, future studies in this area should focus on the role of OD consultant along with organizational, individual, technological and environmental factors. Proper study of these factors would help interventionist to assist organizations and their people to cope with the merger syndrome and to build a post-merger organization that is truly more than the sum of its parts.

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Table 1: Major research work in studying factors relating to post merger scenario

Researcher/ Agency	Year of Publication	Study theme
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Marks and Mirvis	1985-1997	Organizational researcher and consultant Philip Mirvis and Mitchell Lee Marks have studied the post-merger integration process in more than 50 organizational combinations over the past 12 years  They studied the effect of “merger syndrome” on the outcomes of mergers and acquisitions.
Kanter and Mirvis	1989	Employee cynicism and mistrust of leadership are at all-time highs in many work organizations.
Robert Half International	1991	A study conducted in 1991 found the fear of job loss due to a merger or acquisition to be the prime worry among senior executives in the 1,000 largest US companies
Mitchell Lee Marks	1994	A new set of dynamics exacerbates the already fraught task of combining organizations. It includes the price being paid today for yesterdays many mismanaged mergers and acquisitions
Nikandrou B. and Nicandrou A.	2000, 1995, 1997, 2000	The impact of M&As on such subtle issues as personnel morale and career development
Schraeder, Appelbaum, Burns and Rosen, Bijlsma- Frankema, Chatterjee G.	2003, 2000, 1997, 2001, 1992, 2000	Study of the corporate culture in post merger Implementation
Jamie M. Pirrello	2010	Studied the impact and role of leadership on the success and failure of the merger and acquisitions.

Figure 1: The drivers of merger and acquisition activity of a firm

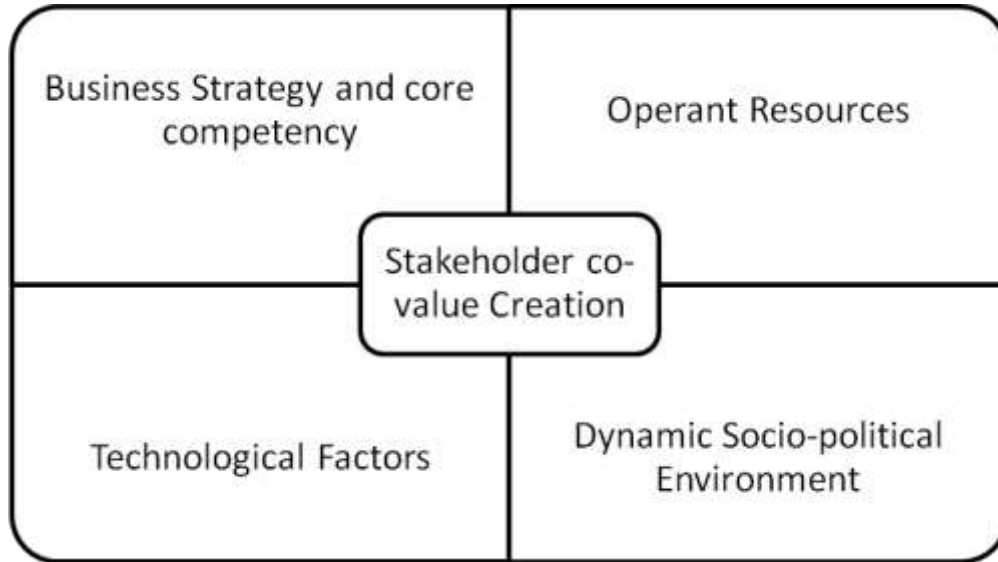
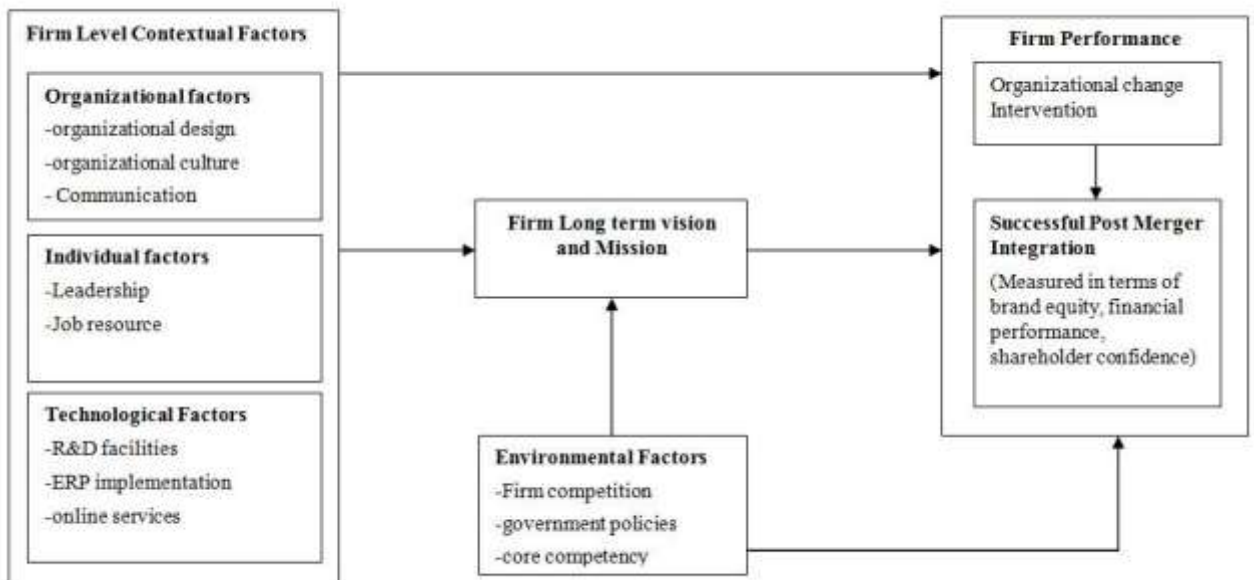


Figure 2: Various factors affecting merger and acquisition activity of the firm



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