How Political Ideology Can Impact the Success of M&As

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As companies look to reframe their future in the post-pandemic era, many are seeking to consolidate in the form of mergers and acquisitions. EY research on the outlook for global M&A trends shows that, since July 2020, there has been a strong rebound in global M&A value, with this trend set to continue into 2021, as the strong snap up the weak in sectors as varied as tech and consumer retail.[1]

While M&A deals may be an appealing option in the new normal, they are also notoriously hard to pull off. Naturally, incompatibility in organizational culture can be a stumbling block for merging companies. Cultural differences may contribute to misunderstandings between the involved workforces, leading to "us versus them" conflicts, and eventually attrition.[2] Real-life examples of culture clashes in M&As abound, from this classic case study on the merger between two savings banks to the more recent case of Amazon and Whole Foods, where problems stemmed from a lack of negotiation on organizational culture from the start.

However, one area of organizational behavior and culture that has been studied far less in the literature, but has increasing relevance in the modern workforce, is the issue of *political ideology*. In recent research, we've examined the influence of political ideology on M&A success and retention, finding that 1) when managers were more aware that employees drew upon political ideology to identify with their organization, this increased the probability of acquiring an organization with similar political ideology; and 2) that compatible political ideologies were *even more* important for mergers involving a higher human capital element. [3]

Our research, conducted on a U.S. sample of 479 M&As, found a positive relationship between the similarity of political ideologies in merging companies with the likelihood M&A announcement. Using this sample, which included over a million data points based on the political donations of employees, we found that a one unit increase in similarity of political ideology increases employee retention by nearly 13%. Overall, our data reveals that compatibility in political ideology really matters for employee retention.

Employee retention numbers are especially critical for companies today for a number of factors. One important reason is that retention supports knowledge transfer — a key resource which contributes to corporate renewal and competitive advantage.[4] Much research has shown that employee retention is critical for knowledge transfer, and consequently, the success of the M&A. Furthermore, employee retention may matter even more for high-tech and knowledge industries, who depend on skilled human resource. [5]

However, unlike organizational culture, differences in political ideology are not so easily managed. Managers and other leaders can help create the desired culture through leading by example, and by modeling desired behaviors[6]. Very often, leaders develop the high-level vision, such as creating corporate value statements, whilst employees' more immediate supervisors provide the link between high-level statements of culture and actual work-team norms.[7] By contrast, political ideology differs from organizational culture, in that it is an individual-level value orientation, and tends to be extra-organizational and stable even when employees change companies.

In this article, we will explore the reasons for *why* political ideology matters to your employees, and offer some recommendations for companies and managers to help strategize successful M&As.

Why Political Ideology Matters

So why does political ideology matter so much to employees? For many people, their political ideology represents their underlying value beliefs on how society *should* function, for example, in terms of

preference for social change versus tradition. In the United States, the dominant way of classifying ideologies tends to be in terms of either liberalism or conservatism, which aligns with the aims of two primary political parties.[8] Studies have shown that individuals who self-identify as liberals generally affiliate themselves with the Democratic Party, whilst conservatives associate themselves with the Republican Party, and that this characterization is robust across various industry settings.[9] Today, Americans are also more politically polarized than ever, and political ideology has been reshaped as a self-referential label, an aspect of the self that is core to one's identity, and an important aspect of person-organization fit.

Technology and social media also play a role in this growing divide by creating online echo chambers that can exacerbate this polarization and antagonism toward political opposites, and, on the flipside, enable like-minded people to group together and affirm their opinions in a self-reinforcing spiral. The upshot of all this is that political ideology has become a particularly important, and emotive, subject for many people. When employees experience misfit in political ideology in their company culture, they are more likely to leave, or if they are unable to do so, they may feel forced to stifle their real opinions and feelings on the subject out of fear.[8] For example, an American Psychological Association study found that men and younger workers were more likely to have experienced an increase in workplace hostility and isolation because of their political views.[10] Overall, research indicates that, in the absence of psychological safety, employees tend to avoid discussing personal perspectives that are not aligned with what seems to be most valued by the majority because they fear triggering judgement from others.[11] However, maintaining such facades only leads to exhaustion and withdrawal, and eventually, could even result in antisocial workplace behaviors.[12]

How then do you deal with this tricky issue when navigating an M&A? Here, we lay out three focus areas for change managers.

Assess political ideological fit beforehand. Compared to other organizational culture problems, political ideological compatibility is a lot easier to diagnose. The more you know about your company's political leanings, the more prepared you can be in assessing fit and alignment strategy with potential merging and acquiring companies. Pre-merger, companies can gain a better sense of the political ideologies of merging workforces by looking at data such as employee donations to political parties. The idea is not about surveillance, but rather, about accurate diagnosis so that company culture can be developed accordingly. The result of such diagnosis, then, is to help develop a workplace culture which is inclusive and open to different political ideologies. Therefore, given such an objective, an out-group employee should feel more assured that the company is trying to create a better work climate for them.

There are other ways to get a sense of employee political ideology. Another diagnostic would be the proposals brought forward by employees to their superiors; proposals that could be in the form of suggestions on work practices, CSR initiatives, innovation, and other firm strategies[13]. An individual's values are infused in all these, and thus, such proposals can serve as indicators of political inclination. Alternatively, the Federal Elections Commission website has public information about the donations of every individual political donor, and identifying employee donors is a simple matter of running a matching algorithm.

While it might be tempting to single out outgroup employees who do not fit in with the majority ingroup in terms of political ideology, it's important to remember that any well-functioning democratic entity, including a company, requires disagreement and debate.[14] However, getting a sense of political ideological compatibility beforehand is still necessary so that managers will be prepared for potential issues. By taking a proactive approach, managers will be better able to

anticipate their employees' struggles, and be able to help them, for example, through scenario and contingency planning.[15]

Additionally, to preserve the value of the merger, calculations of synergy realization should factor in possible ideological incompatibility. This leads us to our next point.

Additional safeguards are needed. Planning is key because incompatible political ideology between merging workforces will hurt companies financially. Nobody wishes to walk away from a lucrative deal, but sometimes, the inevitable happens. However, by the time the initial public announcement of the merger is made, a company has already committed a huge financial sum to the deal. So finding extreme, critical incompatibilities too late on in the process can also incur heavy penalties, as abandoning a deal after the M&A announcement often constitutes a breach of contract. Additionally, a failed deal after this stage would likely lead to unwanted attention with regard to acquisition strategy, reputational damage, and/or possible stigmatization.[16]

Therefore, when seeking an M&A with a firm of opposing political ideology, you need additional safeguards to protect yourself, *and* capture the financial value from the deal. Some steps to take could include the following:

First, make sure that you calculate realistic estimates of the potential synergies from the M&A. Make acquisitions based on realistic, not overly optimistic, assessments about the value of the resources that you can unlock via the M&A.

Second, set exit restrictions for key personnel departure from the target company. For example, some merger agreements involve a five-year lock-in period for employees occupying certain key positions. This may be a pre-emptive move, however, on hindsight, these may be beneficial.

Third, consider other strategies, such as using a greater proportion of equity as payment so as to reduce risk, as well as lengthening the negotiation time to obtain more accurate information about the target company, so as to be better able to price the acquisition. [17]

The point is, despite your best efforts, some employees will still choose to leave because of conflicting political ideology. However, employees are a critical resource, and turnover decreases the attractiveness of the firm as an acquisition target. [18] Thus, if incompatible political ideology is expected to result in turnover, at least go in with your eyes open and discount your target company's value by the appropriate amount.

Be open about ideology-related conflicts, and be prepared to manage them. Remember, managing culture is a long-term project. Post-merger, there may be conflict stemming from ideological differences within the newly formed organization. It is important to be open to different viewpoints, and to actively encourage dialogue. Open and honest discussions surfacing issues resulting from ideological conflict should be done at the individual, group, and organization level. Prioritize the issue by appointing an Ombudsman as an independent and neutral overseer to mediate, and resolve, such conflicts. [19] Similar to how companies develop comprehensive playbooks detailing how to handle issues related to strategy or human resources, it's critical to have a comprehensive manual detailing how the organization will handle conflicts arising from political ideological disagreement.

When Asea and Brown Boveri merged, the CEO spent three months with his new senior management team defining a "policy bible" for "soft" practices (e.g., how fast decision-making processes should be) as well as "hard" management practices (for example, which financial measurement systems to use).[7] In this case, you may wish to set out clear procedures and reporting channels for conflict management.

Importantly, do not allow anyone to discriminate against others on the basis of political ideology. Enforce this, not just because you wish to ward off ideology-related lawsuits like Google, but also, because being allowed to have one's own political ideological identity within an organization is a basic human right, and is part and parcel of a healthy work environment.[20]

Sometimes, when facing such conflicts, promoting integrative goals and structures, and involving employees in new roles and projects with specific and concrete guidelines may lead to better work outcomes. [21] Studies have shown that superordinate goals, as well as clear guidelines, can provide much-needed direction for disparate groups. For example, when Wikipedia allowed opposing partisans to construct common information pages on political, social, and scientific issues, it guided them with its Verifiability policy, as well as disclosure of conflicts of interest (COI) policy.[22] This led to greater productivity and collaboration between the two groups.

Separately, when employees talk about their political views at work, encourage them to share their *personal experiences* for why they support certain political issues. Studies have found that, when people share their personal experiences about how these influenced their support for a political issue, their political opposites will have more sympathy and respect for them.[23] Being humble, open, and less defensive of our beliefs can be helpful for reconciliation, or at least moderate our emotional reactions toward the opposing camp.

It's important for both acquiring and target companies' management teams to have open and honest discussions about workforce culture, and these should commence at the pre-announcement stage, rather than after the announcement when heavy costs have already been incurred. Allow employee representatives a "seat at the table" during such discussions, surface the issue beforehand and get your leaders, as well as HR function, to assure employee representatives that you will encourage a work environment in which all employees, regardless of political inclination, will feel safe to make useful, uninhibited contributions toward organizational learning and decision-making.[11]

Given that polarization is here to stay, and that economic developments and other forces continue to contribute to fraught socio-political divides in communities, it is critical for company leaders to take a hands-on approach to managing differences and building an open and supportive environment for employees.

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