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Effective Management Of Change During Merger And Acquisition

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Abstract

The on-going dance of merger and acquisition happening every week is hard to miss. But it has been found that most mergers and acquisition fail because of poor handling of change management. Change is the only thing that will never change so let’s learn to adopt by change management. This paper will analyse all the factors that lead to change. The major reasons that lead to change are system dynamics, structure-focused changed, person-focused change, and profitability issues. The resistance to change can be attributed to the lack of communication, no clear vision, no proper reward system, confusion and frustration, force of habit, fear of unknown, fear of insecurity, loss of competency and lack of support.

It presents different model that can be used for change management and different theories that can be used to handle change during M&A. It also highlights the strategies this can be followed by the leaders of the organization: Integration plan, Employee Involvement, Clear Vision, Customer Focus, HR structuring and Downsizing. The factors discussed are based on the empirical findings, case study and earlier papers. To, support that the change can be managed effectively and efficiently, the paper shows as to how change was managed in the merger of ICICI bank and Bank of Madura.

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1. Introduction

In mergers, two or more companies engage in some negotiation which ultimately leads to transaction. Acquisition also involves two or more companies but in acquisition the bigger company swallows the smaller company. So merger and acquisition is the process of integrating two or more companies with different values, cultures and forces into one cohesive unit. From an economic point of view, there are 2 types of mergers: Horizontal mergers and Vertical mergers. Horizontal mergers involve companies with similar area of work e.g., Chevron and Texaco. Vertical mergers involve companies with diverse area of work e.g. AOL and Time Warner.

The merger is not only seen from the financial perspectives but it is the union of two different companies and two different cultures which is bound to bring some anomalies. It is very important that the concern departments should be actively involved in the process so that they understand these differences and plan in an orderly manner for the smooth transition.

During M&A, the leaders of both the companies face many challenges: cultural management, stress management, redundancies, HR restructuring, resistance to change, job insecurity, talent drainage, low motivation etc. All the aforementioned factors are responsible for change. KPMG has found that 80% of the mergers and acquisitions fail because of improper handling of change management. Below is the list of few companies which failed miserably because of poor handling of the aforementioned reasons.

<table>
<thead>
<tr>
<th>List of failed Merger and Acquisition</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOL/Time Warner</td>
<td>2000</td>
</tr>
<tr>
<td>HP/Compaq</td>
<td>2001</td>
</tr>
<tr>
<td>Alcatel/Lucent</td>
<td>2008</td>
</tr>
<tr>
<td>Daimler Benz/Chrysler</td>
<td>1998</td>
</tr>
<tr>
<td>Novell/Word Perfect</td>
<td>1994</td>
</tr>
<tr>
<td>National Semiconductor/Fairchild Semiconductor</td>
<td>1999</td>
</tr>
<tr>
<td>JDS Uniphase/SDL</td>
<td>2000</td>
</tr>
<tr>
<td>Mattel/ The Learning Company</td>
<td>1999</td>
</tr>
<tr>
<td>Borland/Ashton Tate</td>
<td>1991</td>
</tr>
<tr>
<td>Excite/@Home</td>
<td>1999</td>
</tr>
</tbody>
</table>

**Table 1: Failed Mergers**
As per data released by Grant Thornton, domestic acquisitions remain the mainstay of the acquisitive growth of many industries but at the same time companies are less hesitant in making cross border acquisition. Some of the important regional highlights are below:

**North America**

There is more emphasis on domestic acquisition with 88% domestic deal. However, both US and Canadian have shown a considerable proliferate in their interest for cross border acquisitions also.

**Europe**

There is not much emphasis on domestic acquisition, as companies from these regions continue to show an increase in desire to drive growth through a cross border acquisition. Spain (61%) is most fervent about future cross border M&A activity.

**BRIC**

BRIC Countries (87%) are mainly focussing on making acquisitions within their own borders however BRIC market respondents have shown a propensity towards overseas acquisitive growth with an increase of 20% year on year.

**Asia Pacific**

Indian respondents (59% increases) are mainly focussing on overseas opportunities for acquisition. While Japanese (91% increase) are more interested in growing through domestic acquisition. At the same time Singapore and UAE are two of the countries which believe in growing through cross border acquisitions. Australian is focussing on domestic market only as part of their acquisition strategy.

So the role of managers plays a significant role in this era of globalization. In order to handle the paradigm shift, managers’ are required to understand the nuances of change in an organization as a whole.

2. **Objective**

- To study the factors which lead to resistance to change
- To suggest ways in to overcome their resistance during merger and acquisition.

3. **Factors affecting the equilibrium of merged unit**

Each organisation which is merging brings a culture with itself, when merged with another, is bound to affect each other. There is a plethora of factors that can disturb the equilibrium of the organisation in a major way during M&A.

- **System Dynamics:** Each organization consists of systems which constantly exchange ideas with each other. Factors such as internal politics, technology, legal system, IT system and accounting system often affect the alignment and relationships thereby demanding change in related business units and employees of that unit.
- **Structure-focused change:** When two organizations decide to marry each other, changes like downsizing and decentralizing are bound to happen to reduce costs and increase the productivity and efficiency. Companies involved needs to be sensitive to the laws/policies of the acquired company and be proactive rather than reactive.
- **Person-focused change:** This change is concerned with the human resource planning and enhancing employee competence and performance. In order to induce such change human resource management needs to tackle issues of redefining organization goals and strategy, recruitment and selection policies, stress management, employee training and development, benefits etc.

- **Profitability issues:** It includes issues such as loss of revenue, market share, low productivity, engagement with processes of restructuring and reengineering lead to major changes in the organizational setup.

- **Government Policies:** This factor is very crucial when the M&A takes place between two cross border acquisition. The companies involved needs to be sensitive to the laws/policies of the acquired company and be proactive rather than reactive.

- **Person-focused change:** This change is concerned with the human resource planning and enhancing employee competence and performance. In order to induce such change human resource management needs to tackle issues of redefining organization goals and strategy, recruitment and selection policies, stress management, employee training and development, benefits etc.

So change is inevitable. So as a manager how you interact with the employees and how you handle the aforementioned issues mean a lot for the success and failure of M&A.

### 3.1. Resistance to Change

During merger and acquisition, organisation faces the most abstruse and recalcitrant problem: resistance to change.

### 3.2. Lack of Communication

The manager has not communicated well the detailed aspects of the change. People may only understand the change in broad terms and not in practical terms. Employee does not know how they should go about for change and are not convinced about the purpose of change.

### 3.3. Confusion and Frustration

Too many parties involved in the change without a clear definition of their roles will bring confusion and frustration.

### 3.4. Force of habit

Feeling of comfort in the existing routines and not interested in changing the existing ways of doing things

### 3.5. Lack of confident in the management

It is also a predominant reason for the people to accept change. They are not sure that once change has taken place, things will become better for them.
3.6. Fear of insecurity

People are worried about the potential role he/she will be offered.

3.7. Fear of unknown

It is because of uncertainty about the nature of change. They are not sure what is happening and what future holds for them.

3.8. Loss of Competency

Existing skills and the competencies the person possess will no longer be of any use after the M&A has taken place.

3.9. Lack of support

Direct supervisors not implementing the change in a proper channelized way.

Change programs fail not because of lack of skills but because of courage to implement them. If change is effectively managed

- Employees will know why change is happening.
- Employees will feel part of solution and change.
- Motivation will remain same as people become more consumed with the change being introduced and thus productivity.
- Early detection of resistance and dealt early.
- Leaders will be able to channelize all the resources in a proper way.
- There will not be unrest between the employees and senior leaders.
- Training can be used to build skills and knowledge of employees

A clear and outright declaration on how people are going to be rewarded if they achieve successful results from change would go a long way.

4. Overcoming resistance to change

Kurt Lewin has suggested model which encompasses 3 stages: The first stage is unfreezing the organization’s existing culture by discontinuing current practises, attitudes and behaviours. The second stage is transition which basically involves teaching the work force new concept. And the final stage is refreezing the culture by reinforcing new practises, attitudes and behaviours once the change was implemented. Similarly there are different approaches to change. Theory E main goal is to maximize shareholder value. It manages change from the top down. Its main focus is to build structure and systems. It first plan and then establish program. It motivates employee through financial incentives. Consultants analyze and shape problem. GE under J. Welsh; IBM under L. Gerstner has adopted this theory during merger and acquisition. Theory O on the other hand develop organizational capabilities,
encourages participation from the bottom up, build up corporate culture employees’ behaviour and attitudes. It motivates employee through commitment. In this theory, consultant support management in shaping their own solutions. Microsoft, Intel, 3 M, Merck, Schwab has adopted this theory in many of the acquisitions.

5. Strategies to manage change during M & A

Companies should follow the below mentioned strategies during merger and acquisition:

5.1. Integration Plan

First step should be setting up of project team comprising of senior executives from both the organization. Instead of focussing on daily routine activities, they should be responsible for carrying post M&A activities smoothly. It is advisable they communicate employees early, immediately. They can do it using webcast, intranet or group meetings. Informing all the employees at the same time will minimize the potential for gossip and spread of misinformation. They should make employees realize the benefits of this marriage. After the announcement of merger, Cisco always has its executive owner present and involved.

5.2. Clear Vision

Senior executive in both the organization should create goals, values, vision and policies of the new company. It should be clearly communicated to the organization. Mary Hiland, CEO of Alliance for Community Care was responsible for carrying out the merger of three agencies in 1997. She received the award of excellence in Non profit Leadership Award on 10th May, 2001 and in the interview she said that her mantra of success was clear vision and the communication of this vision to the employees.

5.3. Understanding Cultural differences

Culture plays an important part on the success and failure of new structure especially in the case of cross broader M&A. Culture difference was largely responsible for the downfall of merger between Chrysler and Daimler. Daimler and Chrysler employees have different views on important things like travel expenses and pay scale; even they have a different approach towards life; Daimler favoured a more formal and structured style while Chrysler favoured a more relaxed and freewheeling style. This cultural conflict played a big role in the failure of merger of Daimler and Chrysler. So Leaders should be able to inspire people to come out from their comfort zone and accustomed norms and accept the new ones. And to achieve this, leader must be in constant touch of the employees. Spending time with them, knowing more about them, what irritates them, what excites them will help leader in making people accept the new culture.

5.4. Employees Involvement

This gives an opportunity to both sides of employee to build their knowledge of other’s organization. When they
interact, they share knowledge about their respective process, systems, budget, headcounts and operations. Building trust is integral to building knowledge. Until the two sides trust each other, they will not reveal details.

5.5. Customer Focus

In today’s competitive world, it is very important that company share future roadmap with the existing customer and promise to the customer they will continue providing service, personnel support and sales people will continue to serve as they were doing earlier. This will make customer safe about its purchase order. And if required, the merged unit can create helpdesk also. This will reduce the number of unsatisfied customers and thus increases customer base and profitability. Cisco does that. Whenever Cisco acquires company, it immediately shares the product roadmap which keeps the customer goal in align.

5.6. HR Restructuring

Again important part in M&A. M&A have the potential of changing the below things:

- Change of geographical location
- Change in perks
- Change in salaries and compensation packages
- Change in Career paths
- Changes in job – new roles and assignment

Employees are always concerned about the carrier opportunities, new roles they will be assigned or will they be transferred to new location post merger. It is very important that HR discuss the aforementioned issues with the employees properly. This might involve HR conducting management training, individual counselling, and providing other professional help to employees. They need to clearly communicate for what reasons these changes are taking place and why these changes are vital. Retaining good employees from both the companies is always crucial. A team can be build with human resource representative from both the organizations, whose main task is to identify valuable resources only. This will create loyalty and commitment to the new company and it will also give employees of the acquired company a feeling of equality.

5.7. Downsizing

It should be considered the last option. In downsizing, severe stress can be prevented by developing the proper plan. We can use any of the below mentioned technique depending on case:

- **Severance package** will motivate low commitment employees to leave.
- **Outplacement**: Helping employees to get job in some other company through the help of consultancy or personal contacts.
- **Redeployment**: Transfer employees to sister company or other business unit.
6. Case Study: ICICI Bank merger with Bank of Madura (January 2001)

In January 2001, ICICI decided to expand their business by acquiring Bank of Madura. Even BoM was also looking for private bank which can increase shareholder value, growth opportunities for its employees, and provide latest technology based services to its customers. Let us see how the leaders of the organization manage change during this merger.

ICICI was established by the government of India in 1955. ICICI’s size was three times to that of BOM. It has a staff strength of 14,000 employees whereas BoM had a staff strength of 2500 employees. ICIC concentrated on individual unit as profit centres. While BoM concentrated on the profitability of the overall bank as a whole. There were large differences in profiles, grades, designations and salaries of personnel. Because of these differences, BoM employees feared that their positions would come in for a closer scrutiny. They were sceptical about the rural branches as ICICI business was urban based.

<table>
<thead>
<tr>
<th>Period</th>
<th>Employee behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day 1</td>
<td>Denial, Fear, No improvement</td>
</tr>
<tr>
<td>After a month</td>
<td>Sadness, Slight movement</td>
</tr>
<tr>
<td>After a year</td>
<td>Acceptance, Significant Improvement</td>
</tr>
<tr>
<td>After 2 year</td>
<td>Relief, Liking, Enjoyment, Business development activities</td>
</tr>
</tbody>
</table>

Table 2: Management of change in ICICI bank and Bank of Madura Merger

As mentioned earlier, ICICI took the same steps:

- Establishing clear communication channels throughout.
- Training programs were conducted which emphasized on knowledge skills, attitude and technology to upgrade the skills of the employees.
- Direct dialogue with the employee unions of the BoM to maintain good employee relations.
- ICICI transferred 450 BoM employees to ICICI Bank, while 300 ICICI employees were shifted to BoM branches.

And by the end of the year, ICICI seemed to have successfully handled the HR aspects of the merger.

7. Case Study 2: AOL and Time Warner Merger

When the merger took place in 2001, it was hailed as a triumph. But it didn’t go as per expected lines. AOL seemed like the answer to Time Warner digital business. Both the companies lost revenue and split in 2009. Few of the reasons are mentioned below:-

- The leaders of the both the organization Steve Case (AOL) and Jerry Levin (Time Warner) couldn’t able to
motivate and energize the employees and both of them seemed to lack the vision.

- Structural Incongruities: AOL employees never exhibited the attributes of a typical Warner company and thus making it difficult to establish a single cohesive unit and foster collaboration.
- Existence of disparate culture played a major role in the failure of merger.

<table>
<thead>
<tr>
<th>AOL</th>
<th>Time Warner</th>
</tr>
</thead>
<tbody>
<tr>
<td>high Tech</td>
<td>Old-World</td>
</tr>
<tr>
<td>Tight of finances</td>
<td>Spendthrift</td>
</tr>
<tr>
<td>casual, Khakis, and Cotton Shirt</td>
<td>Suit and Tie</td>
</tr>
<tr>
<td>Centrally Managed</td>
<td>Decentralized</td>
</tr>
<tr>
<td>Smaller, Younger</td>
<td>Big, mature</td>
</tr>
<tr>
<td>Compensation - Stock options Internet trend</td>
<td>Profit Sharing</td>
</tr>
</tbody>
</table>

**Table 3: Changed management in AOL and Time Warner merger**

The challenge before both the companies was to bridge corporate culture differences. It was required that the leaders of both the organization create proper vision and integration plan and make the employees accept the new reality of the business.

They were no proper communication from the senior executives. Leaders couldn’t able to energize and motivate employees. In the absence of this, there was chaos in both the organisation and the employees were not sure as to which culture should they adopt and continue with. The AOL was centrally managed while Time Warner was more or less decentralised where manager has the decision making power. There was remarkable difference in the official dress code for the both the firms and there was no proper understanding among the employees as to what would be the formal dress code after the merger. All these factor lead to a situation where one can say that there was lack to manage the change.

In a poll conducted on LinkedIn, it has been found that 80% of mergers fail because of inability of the merged unit to generate synergies. Both the organization employees should have demonstrated respect for each other culture; this would have encouraged collaboration. We can conclude that it was basically companies’ inability to handle change in an effective way that led to their downfall.

8. Conclusion

It is human nature to resist change as it is as good as to unsettle the settled one. The change management is very important for any organisation be it a change in the place or be it change in the system. The changes management becomes more vital in the case of merger and acquisitions as it does not affect one or few employees rather it has the widespread reach and effect.
It is very important for the organisation going for mergers and acquisition to understand the importance of managing changes and plan suitably to have a smooth changes management. There are many instances where the change, if not managed properly, lead to the situation where the situation is reversed.

It can be concluded that companies should have a proper change management system in place during mergers and acquisition. Companies involved should understand each other culture and understand the importance of change. At the same time leaders from both sides should understand the complexities and keep employees from both sides involved during the integration. They should be very clear and honest in what they communicate to the employees otherwise risk of resistance and sabotage will proliferate. Providing clear, consistent and honest communication also helps companies to retain customers and loyal employees and thus increases the efficiency of the merged unit. Thus, communication seems to be the most important factor to make the marriage successful.

References

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