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Human Resource Management in Acquisition Implementation

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Abstract

The research area of mergers and acquisitions has quickly risen to great popularity all around the globe. The worldwide M&A transaction volume in 2014 amounted to \$ 3,200 billion USD, representing a fundamental increase in the value from 2013 at \$ 2,300 billion USD, and only falling short by 12% of the all-time high in 2007 amounting to \$ 3,600 billion. Still, most research pinpoints dramatic failure rates in the range of 50-70%. Most of the time there has been a grave discrepancy in research between financial elements and human aspects. Although the topic of Human Resource Management in the implementation phase was classified as critical for success, only little research has been done to understand people on the ground and their reactions on topics of M&A. This paper aims to provide more fine-tuned insight into the hitherto poorly understood field of study, by showing applicable integration measures related to Human Resource Management practices. Specifically, a study was conducted based on a South Tyrolean medium sized firm, which has been on an expansion course as of late, with transactions occurring in both South-America (2014) and Austria (2015).

Keywords:

M&A, Human Resource Management, Post-Merger, Integration, Implementation

1. Human Resource Management during the integration phase

1.1. Importance of Human Resource Management in post M&A integration

In recent years, the importance of Human Resource Management in the integration-phase of M&A has often been stressed as critical to success, yet, few existing studies deal with this connection both theoretically and empirically (Weber / Tarba 2010: 203). While many studies in this area provide recommendations for the management of Human Resources in M&A, they often remain largely theoretical and are based on the analysis of individual cases (Antila 2006: 1000). The focus of management in M&A is rarely based on human elements. The main interest lies in other areas like finance. Nevertheless, the successful management of human factors in M&A is the key to a successful acquisition (Schuler / Jackson 2001: 243–244). Successful human integration can only be achieved by the human effort and competence on the part of the employees and executives, and therefore has to

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be regarded as a core process (Uder / Kramarsch 2001: 105–107). The employees represent the major reason why so many mergers fail. The reasons for failure often lie in the enactment of HR practices. Approximately 85 percent of executives in companies which are involved in M&A held the view that staffing problems affect the long-term success of transactions much more than financial difficulty. Unresolved personal economic and cultural issues can be seen as a central cause of failure. In addition, personal factors comprise particularly powerful leverage for the ultimate success or the failure of mergers and acquisitions (Davy et al. 1988: 57; Schwarz 2004: 183–184).

1.2. Human Resource Management in M&A

Human Resource Management can be seen as a far-ranging function which constitutes HRM strategies and practices. In this respect, the exact definition of HRM is difficult to determine, specifically regarding the delimitations of related concepts such as strategic HRM and international HRM. It can generally be said that HRM combines various psychological, organizational, sociological and economic theories. By virtue of the sheer abundance of books, articles in journals and groups that deal with this issue, a wide variety of theoretical approaches, methods and research interests can be identified. In the past 25 years, the importance of the research area HRM has continued to increase. Employees are increasingly seen as a strategic resource and, as a result, Human Resource Management must consistently take on increasingly more strategic responsibilities. Of particular interest are human resource processes that are designed to help gain competitive advantage (Martín-Alcázar et al. 2008: 103–105). M&A not only have their impact on financial structures, but also have a comprehensive aftereffect on all people involved. Restructuring entails a high level of stress and also requires adaptation to unknown, forthcoming events. The environmental conditions of the workplace and their own standing in the organization are often impacted decisively. This often results in fear and ignorance among the staff (Appelbaum et al. 2000: 674; Buono / Bowditch 1989: 108; Cartwright / Cooper 1992: 30–33; Marks / Mirvis 1992: 113). Cartwright states that a merger or acquisition requires greater harmonization than the purchase of a new house or the death of a close person (Cartwright / Cooper 1992: 30). Workers who are involved in a transaction process suffer the same plight as a toddler who is separated from his mother: the loss of the immediate bond - on the one hand to the mother, on the other hand, specifically to companies. This bond must be built up again after the merger, particularly on an emotional level (Ivancevich et al. 1987: 127). Since the early 1980s, the high value of the integration process and the importance of HRM could be pinpointed precisely in this phase (Jemison / Sitkin 1986: 107). In the event of a merger or an acquisition, the literature states that in the companies involved, great dissatisfaction often times occurs and must be therefore combatted both psychologically and strategically. This is the basis for all value creation inside company bounds (Gerpott 1993: 123).

1.2.1. Internal Communication

Communication in mergers and acquisitions is a key factor. The acquisition creates a keen interest among employees with regards to the information on the planned changes in the company. It is important by what manner the employees come to learn about the upcoming acquisition or merger. They should be informed first and foremost by internal sources. This results in a more professional image being portrayed to the buyer. It conveys the impression that the process and the next steps were planned comprehensively. In addition, a first impression of what the acquisition or merger entails, as well as the exact changes on the agenda should be imparted by the responsible management. Moreover, a more consistent appearance to other business partners is therein made possible, since these people often ask employees regarding specific information about the transaction. Despite these well-known advantages, employees are seldom informed properly about the status of M&A transactions (Hubbard 2001: 138–140).

Marks & Mirvis also noted that in the months after a merger, the staff spends approximately two hours a day speculating about the acquisition. In particular, the uncertainty attached to the impending changes creates stress. The communication within the framework of integration is particularly important because the employees actively seek information and, if not dealt with accordingly, the withholding of information results in swirling rumors and wild uncertainties (Marks / Mirvis 1992: 116; Weber / Tarba 2010: 208; Wickramasinghe / Karunaratne 2009: 705).

An effective and comprehensive communication of relevant information for employees in connection with the acquisition or merger helps to reduce the stress for the employees. A steady flow of communication gives employees the feeling of being involved and properly informed about news, which in turn, has a direct and positive effect on their performance in the integration phase (Appelbaum et al. 2000: 649–650; Marks / Mirvis 1992: 133–135; Nikandrou et al. 2000: 343).

Communication is often neglected in M&A, even though it figures as a vital element of successful mergers. Executives often feel uncomfortable communicating with employees when they have only scant information regarding planned changes. A manager does not want to be regarded as uninformed. As long as there are no final decisions made, most of the information is not disclosed. However, this often leads to increased rumors and uncertainties. Furthermore, it has to be mentioned that employees bear an incredible thirst for knowledge regarding information about changes due to the corporate transaction. It makes sense to repeat consistent information and to give updates, even if there were no changes since the last disclosure (Hubbard 2001: 137; Marks / Mirvis 1992: 134–135).

1.2.2. Integration of Personnel

In M&A several divergent groups, such managers and employees are involved who all have divergent interests and needs. Different levels of hierarchy feature different levels of knowledge. For this reason, it is important how the actual information transfer takes place. Managers tend to withhold negative

information such as planned dismissals. Another factor is the pressure exerted on employees to implement the desired changes and actively participate in the change process. This is mainly determined by top management during the merger process itself, however. The employees are for the most part rarely involved in the integration process. In addition, how the departure of employees is handled is key, as, this serves as an important signal to the remaining staff. Another important aspect is the treatment of the employees themselves. Lack of fairness and non-observance of the rights of employees' generates discontent and ultimately reduces commitment to the company. This is a major reason for the failure of numerous M&As (Buono / Bowditch 1989: 249–254).

As far as cultural differences are concerned, creating group memberships that overlap is recommended, so to ensure cultural integrity while at the same time share common prospects (Olie 1994: 386–387). Cording et al. came to the conclusion that intermediate goals foster the understanding of links regarding acceptance of integration decisions and ultimately benefit the overall deal performance (Cording et al. 2008: 759–760).

Employee integration is critical to the success of corporate transaction. The behavior of the staff has to be positively affected, bearing in mind that issues of psychological nature have to be addressed. This often presents itself as very difficult and requires a long period of time, and can take up to six years (Birkinshaw et al. 2000: 417; Strohmer 2001: 54). The formalization of this relationship in M&A is considered to be advantageous, as, formalized processes suggest better organization and efficiency in the setting of priorities within a company. A higher degree of formalization in the enterprise positively impacts the success of integration (Papadakis 2005: 248).

2. Empirical evidence on post-merger success factors

It becomes evident that M&A integration is more complex than displayed in 2x2 typologies or frameworks. Existing M&A studies tend to be missing out on explanations because of the lack of conclusive theories, hence they propose expounding upon knowledge about why so many deals fail, what the drivers of integration activity are and what really influences results and performance (Meglio / Risberg 2010: 88–92). When investigating the literature on M&A integration, some core-success-factors are repeatedly cited. It can be observed that almost all of the articles and their authors recognize the importance of human resources and HRM in the post-merger phase and consider them to be substantial for the success of an acquisition. Furthermore, the high relevance of personal integration, the constant training and development of employees, as well as the proper handling of ups and downs in the corporate life cycle, are all addressed in the literature (Birkinshaw et al. 2000; Buono / Bowditch 1989; Cartwright / Cooper 1992; Larsson / Finkelstein 1999; Marks / Mirvis 1992; Nikandrou / Papalexandris 2007). On top of that, it turned out that communication from the management to the employees in the integration phase is essential and represents a vital role in retaining corporate bond and trust (Creasy et al. 2009; Gutknecht / Keys 1993; Marks / Mirvis 1992;

Nikandrou et al. 2000). More specifically, a high degree of integration is commonly associated with high motivation during the acquisition stage (Larsson / Finkelstein 1999: 12).

As part of the staff integration, it should be noted that mergers change borders within existing groups in the company and create further pressure for participatory members of an acquisition as a new integration process is started and the aftershock from the merger must also be overcome. This is often very difficult and appropriate countermeasures must be taken. Personal integration may therefore take up to six years for completion (Bijlsma-Frankema 2001: 198; Birkinshaw et al. 2000: 417; Buono / Bowditch 1989; Weber / Drori 2011: 86). Incentive systems are theoretically shown to be received very positively, yet rarely used in practice (Nikandrou / Papalexandris 2007: 173). Furthermore, it could be identified that 85 percent of all persons involved in M&A transactions were of the belief that rather the problems among the staff affect the long-term success negatively than the real financial difficulties (Davy et al. 1988: 57).

Finally, the author found out and substantiated by the findings of Weber et al. that although there are different approaches about how HRM can be used efficiently in the integration phase, there is no clear preferable regulatory approach that serves to improve M&A performance. This is due to the fact that there is more than one way to generate sustainable added value for a business. Thus, a dynamic approach is seen as essential for actually monitoring the integration process (Weber / Tarba 2012: 1).

3. Empirical Research

3.1. Methodology

A qualitative single case-study research design was chosen because of the need to generate and further an in-depth and dynamic understanding of HRM in post M&A integration. Using problem-centered interviews and a narrative approach to this topic enabled the author to gain valuable input from the people concerned both from an acquirer and target perspective, as the majority of research is deal-related rather than context- or enterprise-specific.

3.2. Corporate Case

The corporate case is based on South Tyrolean small-and-medium sized businesses which have been on an expansion course as of late with transactions spanning from South-America (2014) to Austria (2015). Since the beginning of the 20th century, the company has been involved in the manufacturing of products for a healthy diet. First, it is all about the nutritional needs of infants. Soon a first series of gluten-free diet products was specially designed for infants with gastrointestinal problems. After a few years under new leadership, the company became the market leader in Italy. This was the result of a constant investment strategy for the benefit of new technologies, production innovation and quality improvement. Since the turn of the millennium, gluten-free foods can also be compared to conventional food as far as enjoyment of the product is concerned (company website, 2015). To gain

valuable input, interviews were held with company personnel situated in Italy (South Tyrol), South America and Austria and the interview partners were of different departments, ranging from staff to CEO functions.

3.3. Results

	ACQUIRER		TARGET
+	Integration team	+	Integration team
+	Employee training	+	Employee training
+	Kick-off meeting	+	Kick-off meeting
+	Integration ambassador / intermediary	-	No intermediary
+	Regular meetings	-	Cultural differences
-	Language	-	Language
-	Organizational chaos	-	Uncertainty
-	Time for integration process	-	Time for integration process

One key finding, both on target and acquirer side, lies in the installation of an integration (project) team for the purpose of facilitating the transaction process on each side. They serve as the fundament for network creation. Plus, this team is oftentimes seen as first aid when it comes to minor problems. Failing to attend to smaller dilemmas can grow into something uncontrollable, after all. Having a group of people acting as an official team for integration with experts providing valuable input serves to potentially prevent this. These findings were substantiated by the research results by Galpin & Gerpott (Galpin 2014: 133–136; Gerpott 1993: 136). Communication within the team is essential and represents a vital role in retaining corporate bond and trust (Creasy et al. 2009; Gutknecht / Keys 1993; Marks / Mirvis 1992; Nikandrou et al. 2000). Another grave problem that has been identified were the language barriers in place that hindered the transfer of information and communication among employees. This claim is substantiated by Welch et al. (Welch et al. 2005).

The speed of integration was often mentioned as taking place too rapidly, as, there was no time to critically reflect on mistakes that were made. Managers should definitely give the responsible staff members more time for proper integration in order to avoid the hassle related to expected timeframes. For this purpose, it should be mentioned that the degree of integration or the integration speed can be crucial to the success of a transaction (Larsson / Finkelstein 1999; Nikandrou et al. 2000).

Kick-off meetings are seen as essential throughout each interview, both on the target and acquirer sides. It is identified as another common aspect regarding in-depth communication in the merger/acquisition process. Furthermore, having an intermediary to bridge the gap lightens the load

considerably when problems arise due to communication differences on each side. This can be considered as an element of success. Particularly in higher hierarchical levels of management, it must be guaranteed that information is provided appropriately and adequately, as the staff otherwise feels discomforted. Continuous and sufficient information results in a higher sense of confidence on the part of the responsible management. If the need for the upcoming corporate transformation and their positive impact on the efficiency and effectiveness of the company is first successfully communicated, the employees are bound to the company more closely (Buono / Bowditch 1989: 196–199; Gutknecht / Keys 1993: 35; Nikandrou et al. 2000: 343; Wickramasinghe / Karunaratne 2009: 705). Continual employee training and development is perceived to be a crucial factor for success in post-M&A integration, as it provides the fundamental knowledge for doing one's job properly (Birkinshaw et al. 2000; Buono / Bowditch 1989; Cartwright / Cooper 1992; Larsson / Finkelstein 1999; Marks / Mirvis 1992; Nikandrou / Papalexandris 2007).

Due to changes in work situations, decisions regarding personnel have to be made and the corporate culture inevitably transforms in the process. Frequently this means that employees decide to leave the company. At first glance, costs are saved. At second glance however, a substantial loss of knowledge and interpersonal relationship rapport are suffered, particularly, when it comes to key staff in the company.

4. Summary and Outlook

Effective HRM in the integration phase can resolve complications that may arise during such transactions. Most studies in this area are concerned with how buyers demonstrate their power to modify existing processes in acquired companies. The most complex aspect of this stage - integration - is often treated too little. There is currently a strong trend in economics that considers HRM as crucial to the success of M&A transactions. However, the current state of research still leaves room for further investigations. This paper and its qualitative approach attempts to bridge the research gap between theory and practice. You can certainly look expectantly to the future, to what extent the fast-moving M&A field is going to be developed and whether Human Resource Management continues to increase in importance in the post-M&A-integration phase. Finally, this qualitative research approach has demonstrated a lot of common perceptions across acquiring and targeted firms. Due to research limitations, the answer to questions like ***“Is there a general guideline for integration management?”***, ***“How does an integration team actually benefit the integration process?”*** or ***“What is the ideal integration process?”*** still leaves room for further research, both on a qualitative and quantitative level.

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