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Forging New Families:
An Overview of Mergers and Acquisition in the Context of Organizational Change

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Executive Summary

Many aspects of the 'new' economic environment—unpredictability, globalization, diffusion of technology, free trade, deregulation—have placed increasing pressure on organizations to adapt to meet the competitive challenges. Mergers and acquisitions (M&As) have become 'tools' to build power and resources to face this challenge and take advantage of the opportunities in the global marketplace. M&As, however, have had a low success rate, possibly because the focus has been on financial and legal issues rather than the human process. For this reason, human resource management considerations, and particularly integration management, are increasingly being considered integral to the success of M&A efforts.

- While many aspects of M&As are important to the process and results, there are three dimensions that are vital: the strategic purpose for the consolidation, the degree of friendliness or hostility surrounding the process, and the level of desired organizational integration.

- The degree of friendliness or hostility is a key factor in determining how employees respond to M&As. Even friendly M&As can have a negative impact on employees and change management.

- While some degree of organizational integration is probably necessary in M&As, the degree of integration or blending is dependent on the strategic purpose of the merger. The decisions on which functions to integrate should be part of the M&A planning process.

- There are four stages to the M&A process: planning, negotiation, transition, and integration. These phases should not be managed as separate processes but as part of one coordinated process.

- M&As must be well conceived. How the two organizations will 'fit' together is critical. Financial fit is the most critical. Business fit is a long term issue and is reflected in the competitive advantage resulting from the M&A. Organization fit is important because how well two organizations are integrated will impact financial and business fit.

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About the Author

Judy Layne is the Dean of Science and Health at the Saskatchewan Institute of Applied Science and Technology. She has held senior positions in the public and private sectors in human resources management and has published articles on various human resource management and general management topics in professional journals.

- Most organizations experience problems at the integration stage of the M&A. These problems are usually employee-related and may include increased absenteeism, high attrition rates of key personnel, and disruptive conduct. Change management theory can provide guidance in managing the integration process of M&As and alleviating these problems.

- Change management theory suggests that there are benefits in early consultation with stakeholders, in an effective communication system during all stages, and in considering not only technical aspects but also the human implications of the change. Human resource considerations, however, seem to play a relatively minor role in M&A decisions.

- Some of the major HRM challenges of M&As are retention of key personnel, downsizing to achieve operating efficiencies, establishing two-way communication systems, establishing and monitoring new performance standards, and clarifying reporting relationships.

- Corporate culture is also a major concern in M&A success. Even in cases where the cultures of the two organizations are highly compatible, the M&A may fail if the integration process is poorly managed. In cases of cultural conflict, integration management becomes even more important. The result can be loss of key personnel, of market share, and disappointing financial performance.

Introduction

Today's organizations face operating environments that are increasingly complex, dynamic and unpredictable. Turbulent economic, social and political forces including significant shifts in the economy, globalization and increasing competition, rapid and broad diffusion of technology, free trade, deregulation, maturing products and stagnant industries are transforming the environmental landscape (Fombrun 1984; Downie and Coates 1993). These contextual influences not only present organizations with critical challenges, but as well, with new opportunities for growth and development. A wide range of organizational responses to these forces is evident, including downsizing, re-organization, cost-cutting, outsourcing, mergers and acquisitions (DeSimone and Harris 1988, 344).

Mergers and acquisitions themselves may be seen as having dramatically transformed and redefined the corporate landscape. They have been varyingly characterized as two of the most important restructuring tools that industry is using to adapt to the forces of economic change (Drayton, Emerson, and Griswold 1963; McCann and Gilkey 1988), and as 'indispensable tools in building a new generation of companies with the power and resources to compete on a global basis' (Gaughan 1991, xiii). In an environment of constant change, mergers and acquisitions themselves have perhaps been aptly described as 'the ultimate change challenge' (Pritchett, Robinson, and Clarkson 1997, x).

Mergers and acquisitions have perhaps been aptly described as 'the ultimate change challenge.'

Mergers and acquisitions have clearly developed into a major phenomenon. A review of the literature confirms that mergers and acquisitions were a pervasive corporate strategy during the last two decades, and indicates that this trend will likely continue in future. Buono and Bowditch (1989, xiii) observe that the pace and magnitude of merger and acquisition activity has, in fact, risen dramatically, and point out that from 1985 to 1987 alone, over 9,000 mergers and acquisitions were announced, with an estimated combined net worth of more than $520 billion. While traditionally concentrated in businesses such as banking, insurance, wholesale, retail and broadcasting (Weston, Chung, and Hoag 1990, 18), mergers and acquisitions are now being utilized as non-traditional means of economic integration and partnership in a range of organizations including health care institutions, universities and governments (Nevaer and Deck 1990, 197).

Notwithstanding, experts who once lauded mergers and acquisitions are now examining the trend more critically. Such scrutiny is, in part, attributable to the fact that today's merger and acquisition activity is much broader in scope and poses more complex and fundamental issues than earlier activity. It is also reflective of increasing recognition that, while when well negotiated and managed, mergers and acquisitions can play a major role in the growth and success of organizations, empirical evidence illustrates a disappointingly low success rate for mergers and acquisitions. Michael Porter's comment that 'much of the money lavished on the corporate consolidation movement of the last two decades may have been squandered' is representative of shifting expert critique (Wojahn 1988, 5).

Historically, writings about mergers and acquisitions have focused on economic, financial and legal issues, as opposed to human resource management issues or considerations around corporate culture. For example, three works written before 1978 with a total of 1,100 pages devote only 17 pages to a discussion of human resource issues (Alberts and Segall 1966; Hutchison 1968; Morin and Chippindale 1977). It is perhaps equally noteworthy that three fairly recent volumes with a total of over 1,000 pages contain no references whatsoever to human resource management or cultural issues (Marren 1985; Auerbach 1988; Gaughan 1991).

On balance, however, recent writings have placed increasing weight on human resource management issues, cultural implications of merger and acquisition activity, and the management of post-combination integration in an attempt to identify and address causal factors of the low success rate of mergers and acquisitions. The perspectives of a number of authors are instructive and serve to underscore the need for such a shift in emphasis. Weston, Chung, and Hoag (1990, 1), for instance, observe that, increasingly, firms are defined less in terms of products and markets, and more as a range of capabilities. Nevaer and Deck (1990, 94) point out that when two organizations merge, or where one organization is acquired by another, the combined entity is inherently different from either organization before. Such differences arise not only in terms of new product areas and corporate direction, but as well, in terms of new management, new corporate structure and new ideas. Buono and Bowditch (1989, xiv) suggest that while strategic, operational and financial concerns are and will continue to be significant, a merger of two organizations is, in reality, a merger of groups and individuals; that is, a merger or acquisition is ultimately a human process. Wojahn (1988) believes that a basic truth underlies the poor track record of mergers and acquisitions. Specifically, the author posits that 'business is not business wherever it is practiced' and that organizations must be seen as cultural and creative entities unto themselves, with personalities of their own (6). Morin and Chippindale (1977) support this viewpoint, and suggest that mergers substantively change the basic nature and orientation of an organization. The authors emphasize that to be successful, such change must not be allowed to occur in a haphazard fashion; rather, it must be thoughtfully planned and systematically implemented (303).

The low success rate of mergers and acquisitions can be attributed to poorly planned and/or executed integration management.

The thesis of this paper is that the low success rate of mergers and acquisitions can be attributed to poorly planned and/or executed integration management. The premise is that, in practice, merger and acquisition efforts still tend to focus on financial and legal issues, while associated human resource management and cultural considerations are not viewed as an integral part of building long-term competitive capabilities, and accordingly, are often marginalized or ignored.

Key Concepts and Terminology

An overview of key concepts surrounding mergers and acquisitions provides a useful framework within which to:

- identify critical determinants of success;
- highlight associated challenges related to human resource and cultural issues, and
- examine implications for managing the merger and acquisition process, including the importance of developing and executing a strategic integration plan that recognizes the contribution of human resource and cultural considerations to success.

Mergers and Acquisitions Defined

Generally speaking, a merger may be defined as any transaction that forms one economic unit from two or more previous ones (Weston, Chung, and Hoag 1990, 4). An acquisition may be defined as a structured transfer of one organization's assets to another in an agreed upon and orderly manner. These assets may include a firm's physical plant, materials, markets, technologies, and employees (Nevaer and Deck 1990, 117).

McCann and Gilkey (1988, 6) note that mergers and acquisitions represent but one point on a continuum of strategic options for collaboration that range from 'arm's length' coordination to full integration of corporate identities.

Synergy Defined

Webster's Dictionary defines synergy as 'working together: combined action or operation.' Synergy is a concept from systems theory, which in the context of mergers and acquisitions, assumes that the collective advantages to be gained by joining forces is greater than the separate existence of two organizations (McCann and Gilkey 1988, 35).

While the quest for synergy is one of the most attractive notions surrounding mergers and acquisitions, it is frequently illusory in practice. This paper argues that synergy, particularly with respect to human resource management issues and organizational culture, must be thoughtfully planned for and fostered during mergers and acquisitions if it is to be realized.

A Typology of Mergers and Acquisitions

While a number of experts discuss various forms of mergers and acquisitions, Buono and Bowditch (1989, 61-88) offer an insightful and cogent typology of mergers and acquisitions along three dimensions. These dimensions include: the strategic purpose behind the decision to consolidate, the degree of friendliness or hostility involved in combining firms, and the level of desired organizational integration. While it is beyond the scope of this paper to discuss these dimensions in detail, this model is particularly helpful in conceptualizing the unique dynamics and relative importance of human resource management and cultural issues associated with different types of mergers and acquisitions.

Synergy, particularly with respect to human resource management issues and organizational culture, must be thoughtfully planned for and fostered during mergers and acquisitions.

Strategic Purpose

Several alternative forms of mergers and acquisitions have been distinguished, depending on the degree to which activities of the combining organizations are related.

- A horizontal merger combines organizations operating in the same industry and/or business activity (Weston, Chung, and Hoag 1990, 4).
- A vertical merger combines organizations from successive processes within the same industry (Cartwright and Cooper 1994, 53).
- A conglomerate merger combines organizations engaged in completely unrelated areas of business activity (Weston, Chung, and Hoag 1990, 4).

It has been suggested that differences in strategic purpose result in different merger and acquisition synergies, dynamics, and impacts. For example, in conglomerate mergers in which financial as opposed to operational integration is desired, processes used and associated impacts on people may well be distinct from those of mergers whose primary objective is to achieve operating synergies between two companies in the same business (Lubatkin 1983; Jemison and Sitkin 1986a).

Degree of Friendliness or Hostility

Four distinctive acquisitional postures are commonly discussed in the literature. Pritchett, Robinson, and Clarkson (1997, 17) distribute these postures, including organizational rescues, collaborations, contested situations and raids, along a cooperative-adversarial continuum. According to the writers' framework, organizational rescues represent the most cooperative relationship between the acquiring organization and its target, while raids represent the most adversarial form of consolidation.

The literature concludes that the degree of friendliness or hostility in a merger or acquisition is a key variable in determining impacts on people. Pritchett, Robinson, and

Even supposedly friendly mergers can have a negative impact on people.

Clarkson legitimately suggest that collaborative combinations suffer the least from 'post-merger drift,' the drop in organizational productivity and morale that normally follows all mergers and acquisitions. At the same time, however, Buono, Bowditch, and Lewis (1985, 479) point out that while the complexity, costs and associated pressures of mergers and acquisitions increase with the level of hostility involved, even supposedly friendly mergers can have a negative impact on people. Such impacts include:

- significant turmoil;
- rampant rumors;
- loss of self-esteem, concentration and motivation;
- conflictual individual and group reactions;
- culture clashes; and
- turnover of key personnel.

The degree of friendliness or hostility has also been shown to be a key factor in determining how employees will respond to mergers and acquisitions, with the extent of employee resistance to change increasing as one moves from left to right along the cooperative-adversarial continuum (Pritchett 1985, 32-35).

Level of Desired Organizational Integration

Consistent with the notion of synergy, it has been suggested that some degree of organizational integration or blending is a necessary part of any merger or acquisition (Schweiger, Ivancevich, and Power 1987)

At the same time, it is important to recognize that, dependent on the strategic purpose behind the merger or acquisition and the ease with which integration can be achieved, a continuum of different options for integration exists, ranging from complete assimilation to complete autonomy (Management Analysis Center 1983; American Bankers Association and Ernst & Whinney 1985; Buono and Bowditch 1989). Cox (1981, 298) suggests that this element of choice with respect to integration is often ignored in mergers and acquisitions, its absence reflected by the commonly-held belief that 'sameness is next to godliness.' This view is supported by other authors who suggest that while decisions about which functions to integrate should be made as part of the merger and acquisition planning process, they are often not reflected in practice (Jemison and Sitkin 1986a, 1986b; Buono, Bowditch, and Lewis 1988; Buono and Bowditch 1989).

Horizontal mergers designed to achieve economies of scale and operating efficiencies are seen to require a significantly greater degree of organizational integration than those mergers whose goal of financial diversification can be readily achieved through continued relatively autonomous operation of the organizations in question (Wallum 1980; Buono and Bowditch 1989). Ironically, this often results in collaborative horizontal mergers being more disruptive and less successful than more adversarial forms (Jemison and Sitkin 1986b). Impacts on people, all of which serve to heighten tensions between combining organizations, include

- loss of organizational identification,
- changes in reporting relationships,
- elimination of overlapping positions, and
- geographical transfers (Buono and Bowditch 1989, 18).

The Phases of Mergers and Acquisitions

There is clear consensus in the literature that mergers and acquisitions occur in a series of phases. At the same time, there is wide diversity in labels used to describe these phases. Generally speaking, these stages may be characterized as planning, negotiation, transition and integration. Planning and negotiation phases are largely self-explanatory. The transition phase involves attempting to stabilize the combination enough to ensure adequate ongoing organizational performance, while fostering a climate that is receptive to change. The integration phase involves executing plans aimed at fostering organizational fit, the selective joining together of organizational processes, systems, people and cultures (McCann and Gilkey 1988, 97).

Cartwright and Cooper (1994, 50) draw an important distinction between making a merger or acquisition decision and making a merger or acquisition work. The authors point out that the former focuses on the candidate selection process and on recognition of synergistic potential, while the latter focuses on astute management of the integration process and on releasing synergistic potential. McCann and Gilkey (1988, 44) suggest that process issues as they relate to transition and integration phases are not fully appreciated and, as a result, are often ill-managed.

Pritchett, Robinson, and Clarkson (1997, 113) point out that many organizations commit the error of separating the major phases of a merger or acquisition, when in fact the joining together of two organizations should be handled as a singular coordinated process. They argue, for instance, that during 'due diligence' reviews in the planning phase, important diagnoses and decisions are made that impact the integration phase. The authors also suggest that many merger and acquisition failures can be attributed to the fact that, while organizations frequently invest heavily in due diligence, they are reluctant to expend adequate resources towards integration (125).

The joining together of two organizations should be handled as a singular coordinated process.

The Notion of 'Fit' in Mergers and Acquisitions

There is general agreement in the literature that in order to be successful, mergers and acquisitions must first be well conceived. McCann and Gilkey (1988) discuss the notion of fit as it pertains to merger and acquisition planning and execution. Their model is instructive in underscoring the importance of human resource management and cultural considerations not only to merger and acquisition execution, but as well, to conception.

The authors note that to be successful, mergers and acquisitions must reflect minimum critical fit in each of three areas: finance, business, and organization (McCann and Gilkey 1988, 44-68). Financial fit is deemed critical since monetary problems almost always irrevocably impact business fit and organization fit. Business fit is seen to exist over the long term if the combined entity enhances its competitive advantage within its industry. Organization fit is most relevant for the purposes of this paper, and may be defined as how well two organizations can be integrated to optimize their financial and business fit (58). Specific areas in which minimum critical organization fit is required include: administrative processes and operating systems; structural designs including management levels and reporting relationships; human resources, and corporate cultures (McCann and Gilkey 1988; Cartwright and Cooper 1994).

Drucker (1981, 28) offers Five Commandments for successful mergers and acquisitions, including the proviso that organizations must have activities that are related in some fashion. Weston, Chung, and Hoag (1990, 645) point out, however, that while relatedness may be a necessary requirement, complementarities 'are an even greater virtue.' Interestingly, while both publications note a need to enhance managerial rewards and incentives during the post-combination period, they give short shrift to other attendant and arguably more important, human resource management and cultural issues. Cartwright and Cooper (1992, 25) suggest that 'compatibility' in the prevailing view of decision-makers is only a matter of ensuring a 'good strategic fit,' and that the compatibility of corporate cultures is a little considered merger or acquisition issue.

The Promise Compared to the Practice

Given the theoretical constructs discussed above, it is instructive to explore the promise of mergers and acquisitions as tools for corporate growth and development and to compare expectations against actual practice.

Objectives of Mergers and Acquisitions

Mergers and acquisitions are undertaken for a wide variety of reasons. The following objectives are commonly cited in the literature (Imberman 1985; Nevaer and Deck 1990; Weston, Chung, and Hoag 1990):

- to penetrate new product or geographic markets;
- to gain market share;
- to achieve corporate growth;
- to acquire technology where it is lacking;
- to improve competitiveness in a global marketplace;
- to achieve operating efficiencies and economies of scale; and
- to ensure future survival.

Harvey and Newgarden (1969, 11) proffer 'personnel considerations' as a motive to merge, noting that mergers are often undertaken to provide key personnel for an organization 'weakened through death' or through the absence of a management succession plan.

A commonly advanced objective of mergers and acquisitions is the desire to achieve Positive Synergistic Linkages.

A commonly advanced objective of mergers and acquisitions is the desire to achieve positive synergistic linkages. Put another way, Drayton, Emerson, and Griswold (1963, 3) suggest that the anticipated goal of most mergers is the increased value of the resultant combination as compared against the value of each as a separate entity. Recent writings, however, emphasize that 'the synergistic sword cuts both ways' and that the downside risks of negative synergies are rarely considered in as much detail as upside potential (Pritchett, Robinson, and Clarkson 1997, 34). It may be argued that this shortfall is particularly true with respect to potentially negative human resource and cultural synergies.

Weston, Chung, and Hoag (1990, 656) suggest that mergers and acquisitions are often undertaken to acquire needed capabilities 'faster and with less risk than developing them internally.' It may be argued, however, that this expectation is overstated and naïve, particularly when the time, cost and complexity of addressing merger and acquisition-related human resource and cultural issues is considered.

Merger and Acquisition Activity Levels and Success Rates

Based upon a review of the pace and magnitude of activity over the past ten years, it is readily apparent that mergers and acquisitions have become an integral part of corporate strategy for an unprecedented number and variety of organizations.

Record activity levels would suggest that organizations expect great things from mergers and acquisitions. However, empirical evidence shows that more often than not, and despite apparently favourable strategic, financial and operational assessments conducted during merger and acquisition planning, these high expectations are not realized in practice (Buono and Bowditch 1989, 7). Precise statistics regarding success rates for mergers and acquisitions are unavailable, since approximately sixty percent of all merger activity is never publicized or consists of relatively small transactions (Pritchett, Robinson, and Clarkson 1997, 5). Notwithstanding, available data suggests that in general, mergers and acquisitions have less than a fifty-fifty likelihood of being successful (Ellis and Pekar 1978; Lubatkin 1983; Halpern 1983; Pritchett 1985; Do mergers really work? 1985; Nevaer and Deck 1990; Cartwright and Cooper 1992). Senn (1989, 230) points out that up to one-third of mergers fail within five years, and as many as eighty percent never live up to their full expectations. Other authors note that, while the notion of success has both quantitative and qualitative dimensions, and while divergent definitions of success as it relates to mergers and acquisitions may reflect distinctive vantage points of stockholders versus impacted employees, positive performance outcomes appear to be the exception rather than the rule (Meeks 1977; Sinetar 1981; Pritchett 1985; Lubatkin and Shrieves 1986; Marks 1988).

A review of the literature suggests first, that most organizations experience significant problems during the post-combination integration period (Yunker 1983; Do mergers really work? 1985). Second, 'employee problems' are thought to be responsible for between one-third to one-half of all merger failures (Cartwright and Cooper 1992, 25). Third, many of these problems are seen to result from inadequate attention to organizational integration issues, including human resource management and cultural considerations, in merger and acquisition planning and execution (Kitching 1967; Yunker 1983; Jemison and Sitkin 1986a; McCann and Gilkey 1988; Buono and Bowditch 1989; O'Rourke 1989; Pritchett, Robinson, and Clarkson 1997). Morin and Chippindale (1977, 68) draw an intriguing parallel between merger and acquisition failures and marriage failures, and suggest that both instances reflect decisions based on insufficient evidence, premature judgment and a lack of appreciation of the complexities associated with achieving a successful union.

Most organizations experience significant problems during the post-combination integration period.

Cartwright and Cooper (1992, 1994) propose that the analysis of merger and acquisition failure rates tends to focus on strategic and financial factors, and that this focus is a natural extension of the dominance of these same factors during merger and acquisition planning and activity. These authors and others posit that traditional, rational economic explanations of merger and acquisition failure are inadequate, and that more progressive approaches recognize that integration process management and cultural compatibility are two integral determinants of success (Kitching 1967; Cartwright and Cooper 1989, 1993a, 1993b). Specifically, rational economic models seem unable to explain a wide range of negative behavioural outcomes associated with many mergers and acquisitions, including increases in absenteeism (Davy et al. 1988), high attrition rates of key personnel (Walsh 1988), and disruptive unproductive conduct (Sinetar 1981; Robino and DeMeuse 1985), all of which arguably impact an organization's financial bottom line. Given the shortcomings of traditional models in explaining these critical organizational dynamics, it is instructive to explore mergers and acquisitions utilizing the teachings of change management theory.

A Form of Organizational Change

While mergers and acquisitions have long been acknowledged as a form of corporate development and growth, their recognition as a form of organizational change is relatively new. Recent writings underscore the notion that, since mergers and acquisitions can change the fundamental nature and character of organizations, they can and should be considered as a form of organizational transformation or as a process of large-scale change.

Since mergers and acquisitions can change the Fundamental nature and character of organizations, they can and should be considered as a form of organizational transformation.

There is increasing recognition that newly forged corporate bonds, whether through merger or acquisition, bring attendant new realities, and impose significant demands for change and adaptation. Levinson's (1970) analogy of the merger and acquisition process to that of forming a new family is valuable in understanding and attempting to address the reactions of organizational members. The author points out that in addition to fears associated with such life changes, negative emotions associated with the loss of one's previous family and past life may cause disruptive behaviours (140-43). The reactions of organizational members to mergers and acquisitions, particularly hostile takeovers, have been compared to Kuebler-Ross's (1969) description of the stages of mourning following death and other forms of personal loss (Sinetar 1981; Marks and Mirvis 1986; Schweiger, Ivancevich, and Power 1987). Levinson (1970, 141) emphasizes that it is essential to help employees deal with such feelings, since residual anger can persist for years following a merger or acquisition. Cartwright and Cooper (1994, 56) point out that 'collective grief is likely to increase cohesiveness and resistance to change, and make new cultures and managerial practices even more difficult to introduce.'

The literature suggests that, like other major organizational changes, mergers and acquisitions are accompanied by high levels of complexity, multiple transitions, and uncertain future states (Kometsky 1985; Kilmann and Covin 1988; Buono and Bowditch 1989). Cartwright and Cooper (1992, 32) opine that mergers and acquisitions may, in fact, be more acute than other forms of organizational change in terms of speed and magnitude of change, and critical mass of the unknown. The characterization of mergers and acquisitions as important changes in the life cycle of organizations (Pritchett, Robinson, and Clarkson 1997, 114) is complemented by their conception as significant life changes for organizational members (Buono and Bowditch 1989, 265). The interface of these two types of change precipitates high levels of stress, anxiety, and dysfunctional behaviour on the part of employees that may include turnover, theft and even attempts to sabotage corporate efforts (Schweiger and Ivancevich 1985; Marks and Mirvis 1985, 1986). Organizationally, this interface is reflected in the form of 'post-combination drift' characterized by drops in productivity, revenues, operating effectiveness and business opportunities (Sinetar 1981; Pritchett 1985; Ivancevich, Schweiger, and Power 1987). McCann and Gilkey (1988, 129) suggest that the transition phase is a particularly stressful time since it combines 'maximum uncertainty with minimum clarity about new operating responsibilities, roles and systems.'

Teachings from change management literature provide guidance in understanding and managing the complex process of mergers and acquisitions (Luke 1973; Kotter and Schesinger 1979; Goodridge, Fear, and Rigglesford 1985; Bridges 1991; Peters 1995; Larkin and Larkin 1996). First, theory clearly suggests that people display the greatest resistance to change they fear or change that is not of their own making, and that there are distinct benefits to be gained from early consultation with affected stakeholders. Notwithstanding, most employees involved in a merger or acquisition have had no part in that decision, and are frequently taken completely by surprise at the news that 'their corporate family is being reshaped' (Pritchett, Robinson, and Clarkson 1997, 38). Second, theory suggests that there are distinct benefits to be gained from an effective system of communication at all stages of the organizational change process. Unique communication challenges are posed by mergers and acquisitions in that communication networks inherently tend to become more complex and that combining organizations often find that they communicate in somewhat different cultural languages (Pritchett, Robinson, and Clarkson 1997, 47). Third, theory strongly suggests that human implications must be considered alongside technical aspects in order for change to be successful. Notwithstanding, despite the magnitude of change and potential outcomes involved, mergers and acquisitions have been criticized as being essentially 'undermanaged,' especially at the human resource level (Kimberly and Quinn 1984; Buono and Bowditch 1989; Buono, Bowditch, and Lewis 1985; Cartwright and Cooper 1992, 1993a, 1994).

Mergers and acquisitions have been criticized as being essentially 'undermanaged', especially at the human resource level.

While recent literature reflects consensus on the above points, expert opinion differs with respect to the rate of change that should occur during mergers and acquisitions. Some authors advocate a slow pace during organizational integration, in order to minimize error and avoid overwhelming people (Yunker 1983; Smith 1985). Other authors suggest that this approach fails to capitalize on organizational energy evoked through mergers and acquisitions, and extends and magnifies the negative impact of post-combination productivity drops (Pritchett 1985; Pritchett, Robinson, and Clarkson 1997; Buono and Bowditch 1989). It can be argued that each position has elements of validity and, further, that the timing or pace of events during mergers and acquisitions cannot always be controlled easily.

Several authors note that the 'organizational dissonance' created through mergers and acquisitions represents a destabilizing force that opens the door for positive change (Pritchett, Robinson, and Clarkson 1997; McCann and Gilkey 1988). The writers point out, however, that this dissonance frequently appears to be unanticipated, poorly understood and inadequately managed. Consequently, potential benefits of destabilization go unrealized, and perhaps more importantly, organizations and their employees face significant trauma that could in large part have been avoided.

Human Resource Management Issues

There is general agreement in the literature that an organization's business strategy must be supported by and integrated with its human resource strategy in order to be effective (Adler and Bartholomew 1992; Miner and Crane 1995). Evidence also suggests that organizational performance including profit, market share, and stock indices are influenced by human resource decisions and actions (Broderick andd Gerhardt 1997, 158).

Within this context, recent literature makes a cogent and compelling case to examine mergers and acquisitions from a human resource perspective. Clemens Work, for example, notes that the top one hundred mergers during 1984 involved organizations with a total of 4.5 million employees or 4.3 percent of the United States workforce (McCann and Gilkey 1988, 5). The author suggests that, if only one-tenth were impacted by their organization's merger, then the lives of 450,000 people would have been altered. Fulmer (1986, 9) suggests that, during the 1980s, one in four of the United States workforce was likely affected by merger and acquisition activity. Nevaer and Deck (1990, 126) note that mergers and acquisitions are increasingly focused on purchasing 'soft assets' in the form of workforce knowledge and skills, as opposed to hard assets in the form of plants and equipment. Cartwright and Cooper (1992, 3) point out that the growing trend in merger and acquisition activity towards related combinations has had significant implications for process management, dependent on the wide-scale integration of people.

Notwithstanding, research indicates that human resource considerations continue to play a relatively minor role in merger and acquisition decisions (Schweiger and Ivancevich 1985; Hirsch 1987). It has been suggested that human resource management issues and their implications are frequently considered irrelevant since they cannot readily be measured in quantitative terms (American Bankers Association and Ernst & Whinney 1985; Buono and Bowditch 1989). Yet, the costs of lost productivity alone associated with post-combination drift underscore the need to view human resource management and cultural considerations as integral components of merger and acquisition planning and execution.

Specifically, research shows that organizations can reasonably expect a drop in productivity of twenty-five to fifty percent when undergoing large-scale change (Pritchett, Robinson, and Clarkson 1997, 118). While difficult to place an exact monetary value on tardiness, absenteeism, turnover, and other dysfunctional behaviour associated with ill-managed mergers and acquisitions, the literature suggests that these costs can be quite high (Mobley 1982 and Cascio 1987 in Buono and Bowditch 1989, 232).

Research suggests that personal, group and inter-group dynamics following the combination of two organizations are significant determinants of merger and acquisition success over the long term (Ivancevich, Schweiger, and Power 1987; Walsh 1988; Buono and Bowditch 1989). Notwithstanding, experience shows that human resource implications are often dismissed as irrelevant, unimportant or inevitable both during pre-combination feasibility studies and during integration planning, and may only receive attention when cumulative financial costs impact the organizational bottom line (Buono and Bowditch 1989; Cartwright and Cooper 1992).

Cartwright and Cooper (1994) argue that human resource management issues including the need to deal with employee uncertainty, maintaining motivation, and overcoming resistance to change are salient issues in all mergers and acquisitions. The authors also suggest that the magnitude to which these issues present themselves and the most effective strategies for addressing them are impacted by the degree of cultural fit that exists between combining organizations and the strategic purpose, degree of friendliness, and desired level of integration of the organizations involved (50).

While it is beyond the scope of this paper to discuss merger and acquisition-related human resource management issues in detail, the following summary is provided in support of the thesis. Pritchett, Robinson, and Clarkson (1997, 75) point out that, to arrive at a strategy of proper resource allocation in mergers and acquisitions, an assessment must first be made as to what resources each organization brings to the combination and to new corporate direction. This includes a thorough and systematic assessment of key management and technical talent within the target organization in consideration of the extent to which the organizations will be merged. Experience suggests, however, that such assessments are typically made in a haphazard and piecemeal fashion (Pritchett 1985; Pritchett, Robinson, and Clarkson 1997; Buono and Bowditch 1989). In the absence of structured assessment, many organizations take a ‘status quo’ approach to acquired managerial talent, often making false assumptions about management contributions to new corporate direction based on past performance, encountering costly turnover of key personnel, and significantly prolonging organizational integration (Pritchett, Robinson, and Clarkson 1997, 70). Other organizations opt to make wholesale changes in personnel, thereby losing key people who possess a valuable sense of organizational history and who can provide an element of needed continuity during mergers and acquisitions (Nevaer and Deck 1990; Weston, Chung, and Hoag 1990).

A major challenge in mergers and acquisitions is the retention and revitalization of key personnel.

Following talent assessment, a major challenge in mergers and acquisitions is the retention and revitalization of key personnel. Research suggests that retention strategies depend on the type of merger or acquisition involved and its strategic purpose (Hayes 1979). Notwithstanding, a timely, comprehensive and well-executed re-recruitment strategy aimed at key personnel is seen to be required in all cases, and should include making concerted communication efforts, addressing issues of job security and future role, providing financial ‘retention’ incentives, and tracking how effective efforts have been through turnover statistics and exit interviews (Fried 1990; Miner and Crane 1995; Pritchett, Robinson, and Clarkson 1997). Experience shows, however, that organizations frequently do little or nothing in terms of deliberate‘re-recruitment’ and that steps that are taken are cursory in nature, poorly coordinated and carried out with a lack of urgency (Perry 1984; McCann and Gilkey 1988; Buono and Bowditch 1989;

Pritchett, Robinson, and Clarkson 1997). The costs of associated talent drains, including seventy-two percent of senior management within acquired organizations leaving within the first three years, are arguably enormous (Pritchett, Robinson, and Clarkson 1997, 101).

Downsizing is an inherent component of mergers and acquisitions. Given that the goal behind many mergers is the achievement of economies of scale and operating efficiencies, and given that mergers normally result in the consolidation of departments, integration of functions, or elimination of specific work groups, the need to deal with redundant personnel becomes obvious (Hopkins 1983; Buono and Bowditch 1989; Pritchett 1985). There also exists an emergent need to terminate insurgent employees, who are unwilling to embrace the new order, along with non-performers, who are unable to do so (Buono and Bowditch 1989; Pritchett, Robinson, and Clarkson 1997). Research suggests that all instances of downsizing should be handled with dignity and respect, and that departing employees should be provided with outplacement assistance and other support services (Ivancevich, Schweiger, and Power 1987; Pritchett, Robinson, and Clarkson 1997). Experience shows, however, that most employees involved in mergers and acquisitions feel that termination decisions are handled arbitrarily and ineffectively (Schweiger, Ivancevich, and Power 1987), that false promises are often extended respecting job security (Harshbarger 1987; Gaddis 1987), and that organizations often lose credibility and momentum by delaying required terminations (Pritchett, Robinson, and Clarkson 1997, 64).

Most employees involved in mergers and acquisitions feel that termination decisions are handled arbitrarily and ineffectively.

The establishment of effective two-way communication systems as early as possible in the merger and acquisition process is seen to be of paramount importance (Marks 1982; McCann and Gilkey 1988; Buono, Bowditch, and Lewis 1988), particularly if combining organizations are separated widely geographically (Nevaer and Deck 1990, 78). Research suggests that providing employees with a realistic merger preview fosters more stability in terms of commitment, satisfaction, trust, and performance than not providing this information and helps to build a foundation for the 'emergent psychological contract of the combined entity' (Buono and Bowditch 1989, 132). This preview should include information on: reasons behind the combination, changes in organizational structure and management, the possibility of workforce reductions, changes in policy including compensation and benefits, new roles and reporting relationships (Imberman 1985; Buono and Bowditch 1989). Cartwright and Cooper (1994, 57) suggest that the act of communicating itself may, in fact, be as important, if not more so, than the content. Experience shows, however, that almost all mergers and acquisitions reflect communication shortages sometime during the combination process (Hayes 1979; Marks and Mirvis 1985; Buono, Bowditch, and Lewis 1988); that while employees report significant communication shortfalls, management reports a perception of 'over-meeting' about the merger or acquisition (Buono and Bowditch 1989, 100).

Research suggests that the establishment, communication and monitoring of new performance standards associated with the merger and acquisition goals are essential to success (Buono and Bowditch 1989, 167). Experience shows, however, that these elements are often lacking, thereby preoccupying employees with the present rather than directing them toward future strategic direction (Pritchett, Robinson, and Clarkson 1997, 138).

The need to re-define and communicate reporting relationships, authority, and accountability immediately following organizational combinations is viewed as a critical component of the integration process (Pritchett, Robinson, and Clarkson 1997, 140). Experience shows, however, that most mergers fail as a result of internal conflicts that arise from power struggles, and that the majority of unsuccessful mergers and acquisitions have been plagued by unclear reporting relationships (Nevaer and Deck 1990, 76).

Various authors suggest that, while communication initiatives are likely to be effective in the early stages of organizational combination, they need to be augmented by other more specific human resource management interventions designed to build capacity and minimize disruption to employees (McCann and Gilkey 1988; Cartwright and Cooper 1994). These interventions include: individual and group counseling, career planning workshops, retraining, and the establishment of joint working committees or integration teams (McCann and Gilkey 1988, 215). Experience shows, however, a reluctance on the part of many organizations to undertake initiatives beyond basic adjustments to human resource policies such as compensation and benefits (Buono and Bowditch 1989, 209).

It can be argued that merger and acquisition planning must incorporate labour relations considerations, where relevant, in order to achieve strategic objectives. Interestingly, among all literature reviewed, the issue of labour relations was discussed in only three writings, occupied less than fifteen pages, and was largely dismissed as 'an additional and perhaps obvious factor' (Morin and Chippindale 1977, 81). Only one author spoke to the wide range of legal and practical issues surrounding merger with or acquisition of a unionized organization (Marsack 1989, 259-72).

In summary, there is strong support for the notion that human resource management issues must be considered alongside strategic and financial issues in order for mergers and acquisitions, as large-scale organizational transformations, to be successful. As well, there is growing recognition that cultural considerations must be viewed as an integral determinant of merger and acquisition success or failure.

Cultural Considerations

Corporate culture has been varyingly described in the literature as the 'normative glue' that holds an organization together through traditional ways of fulfilling organizational responsibilities (Buono and Bowditch 1989, 137) and as the emergent pattern of beliefs, behaviours, and interaction that uniquely characterizes the organization as it operates within a particular industrial and societal context (Fombrun 1984, 203). Pritchett, Robinson, and Clarkson (1997, 10) suggest that corporate culture shapes management style along with operating philosophies and practices, and affects the type of behaviour that is rewarded both tangibly and intangibly in an organization. The notion of corporate culture is ably and concisely summed up by Cartwright and Cooper (1992, 56), who suggest that it is 'the way in which things get done within an organization.'

Cultural change is one of the most difficult types of change effort.

Buono and Bowditch (1989, 161) note that cultural change is one of the most difficult types of change effort since culture provides the foundation for peoples lives and that corporate culture can serve as a constraint to large-scale organizational change (17). Other authors note that resistance to cultural change is related to the degree of change involved, specifically, the greater the change, the greater the probable resistance (Sathe 1985, 14). Hall (1959, 43) points out that since culture is such an inherent part of peoples lives, they are often not aware of it until it comes into conflict with or is contrasted against a different culture.

The issue of cultural fit has become a topic of increasing interest and importance in recent merger and acquisition literature. Writings build on Levinson's (1970) analogy between merger and marriage, in which compatibility of partners is considered critical to a successful combination. Senn (1989, 229) suggests that two organizations merging on the basis of financial data only is akin to two people marrying based solely on height and weight, and observes that both lead to high divorce rates. While it is acknowledged that successful mergers and acquisitions must primarily be based on objective strategic and financial criteria, there is growing recognition that ignoring potential culture clashes can lead to financial failure or to a significant reduction in expected results (Davis 1968; Hall and Norburn 1987; Cartwright and Cooper 1992, 1993a, 1993b, 1994).

Mergers and acquisitions inherently bring together distinct corporate entities, each with their own corporate culture, explicit and implicit behavioural systems and management styles (Nevaer and Deck 1990, 34). Even those organizations that appear to be highly compatible and that seemingly should be able to achieve value-added merger synergies can have underlying cultures that threaten successful co-existence (Buono and Bowditch 1989; Pritchett, Robinson, and Clarkson 1997). The degree of decision-making responsibility, along with power and control mechanisms, have been identified as key areas where cultural clashes are apt to occur, especially where a high degree of integration is required to achieve merger and acquisition objectives (Krupar and Krupar 1988, 96). Further, combinations between organizations with highly compatible cultures may fail to meet expectations if the integration process is poorly managed (Cartwright and Cooper 1992, 6). The challenge of cultural compatibility becomes even more pronounced when international combinations are involved.

In merger and acquisition situations, particularly where disparate cultures collide, employees become confused, frustrated, and resistant to change. The literature suggests that such cultural conflict manifests itself in terms of high turnover including key personnel, market-share shrinkage, and disappointing financial performance (Sales and Mirvis 1984; Buono and Bowditch 1989; Pritchett, Robinson, and Clarkson 1997).

The literature suggests that, just as there are different types of mergers and acquisitions, there are different levels of cultural integration that are possible. Buono and Bowditch (1989, 143-47) offer a typology of culture-related implementation strategies related to strategic objectives, including cultural pluralism, blending and takeover. McCann and Gilkey (1988) point out that integration of two organizations need, and should, only occur up to that point which optimizes business, financial and organizational fit. The authors suggest that this may call for a total merging of cultural identities in one situation and a highly autonomous partnership in another (190). Pritchett, Robinson, and Clarkson (1997) note that some organizations attempt to circumvent problems related to cultural differences by allowing acquisitions to remain autonomous. The writers emphasize, however, that this approach is not always feasible, and that integration strategies aimed at reconciling cultural differences are required to achieve merger-related economies of scale (11).

Just as there are different types of mergers and acquisitions, there are different levels of cultural integration that are possible.

There is mixed opinion in the literature with respect to cultural fit within and between industries. Some authors suggest that it is easier to find cultural compatibility within industries, and accordingly, the probability of intra-industry merger and acquisition success is significantly higher (Senn 1989, 232). Others perhaps more appropriately note that while over the long term, it may be easier to accommodate intra-industry as opposed to inter-industry differences, disparate cultures between organizations in the same industry do exist and often present many problems during mergers and acquisitions (Buono, Bowditch, and Lewis 1985, 1988; Buono and Bowditch 1989).

Culture change, in the context of mergers and acquisitions, is generally recognized as a time-consuming, evolutionary, expensive, and emotionally-intensive process (Sales and Mirvis 1984). Various authors suggest that true cultural integration takes between three to seven years (Walter 1985; Stybel 1986). Buono and Bowditch (1989, 190-92) highlight the paradox that, while the timeframe associated with cultural change is lengthy, the timeframe associated with mergers and acquisitions is relatively compressed, and underscore the challenge of cultural integration within this context. While some authors emphasize that cultural transformation must be seen as an incremental and evolutionary process (Sathe 1985, 45), others argue that speedy cultural integration, in which employees are given a sense of citizenship in the combined corporate entity, is required (Pritchett, Robinson, and Clarkson 1997, 139).

The challenge of integrating different organizational cultures should be viewed as a fundamental ingredient for successful change.

Despite the importance of cultural considerations, experience shows that merger and acquisition strategies often fail to recognize that not only are two organizations coming together, but two sometimes distinct corporate cultures as well (Nevaer and Deck 1990; Cartwright and Cooper 1992, 1993a, 1993b, 1994). Some authors suggest that mergers and acquisitions frequently fail to achieve operational and financial expectations due to conflicts that arise when attempting to combine disparate corporate cultures (Buono and Bowditch 1989; Pritchett, Robinson, and Clarkson 1997). Nevaer and Deck (1990, 142) argue that the most common cause of acquisition failure is a clash of corporate cultures, while Walter (1985) estimates that the cost of cultural collisions resulting from poor integration management may be as high as twenty-five to thirty percent of the acquired organization's performance (Cartwright and Cooper 1992, 26). While a small but increasing number of organizations have begun to place emphasis on whether or not a merger or acquisition candidate meets important cultural compatibility criteria (Buono and Bowditch 1989, 171), potential cultural fit between combining organizations, if at all evaluated, is typically intuitive and based on limited information gained from interactions between negotiating teams (Cartwright and Cooper 1994, 52).

The literature emphasizes the importance of developing and implementing a cultural reframing process as part of merger and acquisition planning and integration. This process should include the conduct of a formal culture audit both as a means of anticipating future problems and of monitoring the ongoing process of integration (Senn 1989; Cartwright and Cooper 1994). The process should also include the confirmation and communication of values, norms, and corporate philosophy of the combined entity (Pritchett, Robinson, and Clarkson 1997, 140). Wherever possible, existing cultural symbols, mores and practices should be preserved and assimilated as a means of maintaining continuity while diminishing employee resistance and facilitating change (Bennigson 1985; McCann and Gilkey 1988).

In summary, the challenge of integrating different organizational cultures is one of the most demanding and complex aspects of mergers and acquisitions and should be viewed as a fundamental ingredient for successful change.

Conclusion

This paper has taken the position that the low success rate of mergers and acquisitions can be attributed to poorly planned and/or executed integration management. The paper has attempted to provide a warrant for this position as follows.

A conceptual typology of mergers and acquisitions underscores the unique dynamics and relative importance of human resource and cultural issues associated with various types of organizational combinations. A review of merger and acquisition phases suggests that process issues related to the integration phase are not fully appreciated and, as a result, are often ill-managed and under-resourced. An examination of the notion of fit as it pertains to mergers and acquisitions highlights the requirement for minimum critical organizational 'fit' in order to optimize financial and business fit.

Mergers and acquisitions in practice fall short of their promise as tools for corporate growth and development. Empirical evidence consistently shows that despite apparently favourable strategic and financial assessments, mergers and acquisitions fail to meet expectations. Many failures are attributable to inadequate attention to organizational integration issues, including human resource management and cultural considerations, in merger and acquisition planning and execution.

Change management theory offers a more viable framework for understanding the unique and complex dynamics of mergers and acquisitions than do rational economic models. Mergers and acquisitions represent important changes in both organizational and employee life, with resultant significant negative impacts on organizational and individual performance if process issues are not well managed.

Merger and acquisition practice still tends to focus on strategic, financial and legal issues. Although recent literature emphasizes the importance of human resource management issues and cultural considerations as determinants of success, these factors are often dismissed as irrelevant, unimportant, or inevitable during merger and acquisition planning and integration, and only tend to receive attention when cumulative financial costs impact the organizational bottom line.

As new corporate families continue to be forged through merger and acquisition activity, successful unions will depend on the insightful integration of human resource management and cultural considerations to the process of organizational change.

Many failures are attributable to inadequate attention to organizational Integration issues, including human resource management and cultural considerations.

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