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Mergers & Acquisitions: Organizational Culture & HR Issues

Deborah A. Pikula

IRC Press
Industrial Relations Centre
Queen's University
Kingston, ON K7L 3N6
Tel: (613) 533-6709
Fax: (613) 533-6812

E-mail:
ircpress@post.queensu.ca

Visit our Website at:
http://qsilver.queensu.ca/irl/qsirc/

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Executive Summary

Mergers and acquisitions are increasing in North America as organizations try to expand their operations and increase their competitive advantage. But despite optimistic expectations, mergers and acquisitions frequently fail, in part because managers neglect human resource issues, which are rarely considered until serious problems arise. This study highlights the importance of proactive management of human resource issues, concurrently with financial issues, and offers detailed practical advice to help ensure that the process will succeed.

- To avoid inaccurate rumours, which are highly detrimental to organizational morale, employees should be informed as soon as possible about what to expect once the acquisition takes place. Management must continue to listen to and communicate with employees and relay accurate and comprehensive information throughout the process.

- A realistic merger preview depicting job expectations for the future will allow employees to cope more realistically with new or modified job demands. Any layoffs or downsizing should take place as soon as possible to alleviate anxiety, reduce rumours, and allow employees to return to business as usual. The longer fear of the unknown lasts, the more damage will be done.

- Even the best-managed mergers can be threatening to some employees and lead to absenteeism, poor performance, and high turnover. To alleviate stress, management can conduct a merger stress audit to identify collective concerns. It can then implement programs, such as individual counselling on new career opportunities, to alleviate them. Voluntary stress management training can be provided on a group basis to allow employees to share their concerns.

- Because the turnover rate of top managers is unusually high after a merger or acquisition, it is important to conduct a talent audit before the change takes place to ascertain the managerial talent required for future success. Steps can then be taken to ensure that organizational talent will be plentiful after the merger.

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About the Author

Deborah Pikula is a graduate of the Queen’s University Master of Industrial Relations program. She is a Human Resources/Industrial Relations professional currently residing in the greater Toronto area.

- Differences in the two organizational cultures can lead to competition between employee groups and hostile ‘we-they’ attitudes. Managers should try to avoid this situation by carefully mixing employees as much as possible at all organizational levels. When combining departments, functional counterparts should not be placed in subordinate and supervisory relationships.

- Both organizations will have unique and beneficial cultural elements. Rather than imposing one organization’s culture on the other, the best of both organizations should be integrated into a common corporate culture that both sides can identify with.

Introduction

Mergers and acquisitions are increasing in North America as organizations try to enhance their competitive advantage and expand their operations. But despite optimistic expectations, corporate mergers and acquisitions frequently fail: ‘at best, only half of all mergers and acquisitions meet initial financial expectations’ (Cartwright and Cooper 1993a, 57). Mergers and acquisitions are undertaken on the assumption that ‘the combined company will have greater value than the two companies alone’ (Mirvis and Marks 1992, 69). Why, then, is the failure rate so high?

Companies do pay considerable attention to financial and strategic issues during mergers and acquisitions, but they frequently neglect human resource issues. The role of people and the organizational cultures is often placed in a marginal position, and most of the energy is invested in strategic and financial planning. It will be argued here that problems of human resources and organizational cultures should, however, be given a high priority, along with strategic issues, to increase the likelihood of a successful combination.

During mergers, companies frequently direct their energy to strategic and financial issues, neglecting HR issues.

Organizational Culture

Differences in the two organizational cultures involved in a merger or acquisition and how they are managed are crucial to the success or failure of the process. An organizational culture is comprised of ‘the patterns of shared beliefs and values that give the members of an institution meaning, and provide them with the rules for behaviour in their organization’ (Davis 1984, 1). The culture is not generally recognized within organizations, because ‘basic assumptions and preferences guiding thought and action tend to operate at a preconscious level’ (Sathe 1985, 30). Nevertheless, this preconscious level affects many areas within the organization, including, ‘performance, cooperation, decision making, control, communication, commitment, perception and justification of behaviour’ (31).

Strong Versus Weak Cultures

Three elements determine the strength of corporate culture.

1. The number of shared beliefs, values, and assumptions. The higher the number of shared assumptions, the ‘thicker’ the culture. In ‘thin’ cultures, there are few commonly held assumptions and values.
2. The number of employees who accept, reject, or share in the basic beliefs, values, and assumptions. If employee acceptance is high, a strong corporate culture will emerge.
3. The higher the number of shared beliefs, values and assumptions, the stronger the culture of the organization. (Nahavandi and Malekzadeh 1993, 19)

In addition, a homogenous and tenured workforce contributes to cultural strength: ‘surviving the good and bad times together [makes] the employees a close-knit group’ (Ingols and Myers 1992, 269). Finally, a smaller, centrally located organization is likely to have a stronger organizational culture than one which is larger and geographically dispersed (Nahavandi and Malekzadeh 1993, 21), since employee interaction is more frequent and informal in a smaller and centrally located organization.

Once a corporate culture is established, it provides employees with identity and stability, which in turn provide the corporation with commitment. On the other hand, a strong culture, with well-ordered values, beliefs, and assumptions may hinder efforts at change, especially in a merger or takeover. Much will depend on the type of merger and the compatibility between the two organizations’ cultures.

Types of Organizational Cultures

Roger Harrison describes four main types of organizational culture summarized below (Cartwright and Cooper 1992, 58-68):

A strong corporate culture may hinder efforts at change.

Power Cultures

In organizations with power cultures, power rests either with the president, the founder, or a small core group of key managers. This type of culture is most common in small organizations. Employees are motivated by feelings of loyalty towards the owner or their supervisor, these types of organizations foster a sense of tradition in both the physical and spiritual sense. Power cultures tend to have inequitable compensation systems and other benefits based on favouritism and loyalty, as well as performance.

Role Cultures

Role cultures are highly autocratic. There is a clear division of labour, and authority figures are clearly defined. Rules and procedures are also clearly defined, and a good employee is one who abides by them. Organizational power is defined by position and status. These organizations respond slowly to change; they are predictable and risk averse. This type of culture thrives in industries which employ mass production techniques, in automobile manufacturing, for example.

Task/Achievement Cultures

Task/achievement cultures emphasize accomplishment of the task; research and development is an example. The employees usually work in teams, and the emphasis is on what is achieved rather than how it is achieved. Employees are flexible, creative, and highly autonomous.

Person/Support Cultures

Organizations with a person/support culture have minimal structure and serve to nurture personal growth and development. They are egalitarian in principle, and decision making is conducted on a shared collective basis. This type of culture is rarely found in profit-making corporations; it is more typical of professional partnerships such as law firms.

Table 1 summarizes the likely outcomes of mergers between partners of various cultural types. The table is not a definitive statement of likely outcomes, since other factors can play a large role in determining the cultural fit between two organizations. It does, however, exemplify pitfalls and obstacles that organizations may encounter in a merger or acquisition.

Merger Types and Probable Outcomes

Vertical Mergers

In a vertical merger a firm purchases one of its suppliers (a backward merger) or merges with one of its customers (a forward merger). Because an acquired firm generally falls under the acquiring firm's corporate umbrella, most of the interaction between the two firms is at the corporate level. The level of complexity at the corporate level increases, as do the rules governing the acquired corporation, which faces a reduction in self-determination. This leads to the demotion of subsidiary executives to middle management (Walter 1985, 311), which often leads, in turn, to a higher level of executive turnover, especially if 'the executives of the acquired firm are treated as if they have been conquered, causing them to feel inferior and experience a loss of social standing' (Nord 1994, 81).

Table 1
Cultural Types and Merger Outcomes

Culture of the Acquirer Dominant Merger Partner	Culture of the Acquired or Other Merger Partner	Likely Outcome	Comments
Power	Power	Problematic	Success very dependent on the choice and charisma of the organizational leader. In a pseudo-merger situation likely to result in bitter political infighting.
Power	Role Task Person/Support	All potentially disastrous	Assimilation will be resisted. Culture collisions will inevitably result. Labour turnover rates can be expected to rise.
Role	Power	Potentially good	Assimilation likely to be accepted. Most acquired employees will welcome the ‘fairness’ of a role culture.
Role	Role	Potentially good	Smooth assimilation likely as effectively rewriting or presenting a new rule book is all that is required.
Role	Task	Potentially problematic	Many managers will have joined the acquired organization to escape the bureaucracy and red tape of a role culture.
Role	Person/Support	Potentially disastrous	Anarchy likely. While eventually members of a task culture may accept that the size of the organization may now require greater infrastructure, members of a person/support culture certainly will not.
Task	Power Role Task	potentially good	Smooth. Assimilation likely for those in existing power and role cultures; there will inevitably be a pleasant but still potentially disturbing culture shock. Some are likely to feel their status is eroded, particularly those with considerable position power. Many will find the new culture very demanding and perhaps stressful.
Task	Person/Support	Potentially problematic	While person/support cultures nurture self-development, they are not conducive to team cultures and consensual decision making.

Source: Cartwright and Cooper (1993a, 67).

The difficulty of implementing a merger varies with the type of merger.

Horizontal Mergers

In horizontal mergers one corporation acquires another corporation whose product or service is closely related or of the same type (Nahavandi and Malekzadeh 1993, 27). An example would be the takeover of one printing firm by another. From a human resources perspective, these are the most difficult mergers to implement, since the acquiring firm already has expertise in the business operations and will act to consolidate the two firms to avoid redundancy and become more cost-effective. Downsizing and voluntary quits usually precede or immediately follow the merger.

The intense interactions between the employees of both corporations may result in conflict and the 'compatibility of styles and values between management and staff becomes central in personnel decisions. Since most mergers involve one party being more than equal, it is reasonable to speak of the acquiring organization as having the majority of control over these matters. Often the entire culture of the acquiring firm is forced upon the target' (Walter 1985, 312).

In the interests of equity the acquiring organization usually tries to ensure that all employees of the merged corporation are guided by the same rules and procedures. However, the employees of the acquired firm may resist any changes that are imposed. Hence, it is of utmost importance that the acquiring firm communicate clearly the reasons for the procedures, to allow the acquired firm's employees to prepare for and respond to any proposed changes.

If the organizational cultures of the two companies are significantly different, productivity gains may not be realized for several years (Nahavandi and Malekzadeh 1993, 29), and in the worst case, the merger may fail.

Concentric Mergers

Concentric mergers occur between two firms with highly similar production or distributional technologies (Walter 1985, 311). A merger between a motorcycle manufacturer and an automobile manufacturer would be an example (Nahavandi and Malekzadeh 1993). Both kinds of corporations service transportation needs, but they are unique structurally. In concentric mergers there is a tendency to combine some operations, especially departments focused on technology and marketing. This will result in the sharing of expertise between the two firms, which may be resisted by the employees of both firms. The best way to overcome this resistance is by obtaining the consent of the acquired firm's human resources management before the merger.

Conglomerate Mergers

A conglomerate merger involves the acquisition of an unrelated business. The acquired firm is usually one of many under the corporate umbrella of the acquiring firm and is perceived as providing profitable diversification. Since the two firms are unrelated in product or service, internal changes to the acquired firm, which will remain relatively autonomous, are likely to be minimal, and there will be few cultural consequences.

Occasionally the acquiring firm will send a new team from headquarters to manage the unit (Nahavandi and Malekzadeh 1993, 40), which will cause conflict among the senior executives of the acquired firm and may result in a higher quit rate among its employees and feelings of insecurity and instability.

Despite these difficulties, 'conglomerate takeovers tend to be the most benign of all the sources of cultural change' (Walter 1985, 313).

Figure 1 shows how the difficulty of implementing a merger or acquisition varies with the type of merger.

Figure 1
Merger Type and Difficulty of Implementing Mergers

Degree of Relatedness

Low		Moderate	High
Conglomerate	Vertically Integrated	Concentric	Related/Horizontal
Low		Moderate	High

Difficulty of Implementation, Conflict

Source: Nahavandi and Malekzadeh (1993, 26).

Cultural Compatibility

As was stated in table 1, the success of a merger or acquisition depends, in part, on the cultural compatibility of the two organizations. When an organization acquires or merges with another, the contract may take one of three possible forms depending on the nature of the two cultures, the motive for and the objective and power dynamics of the combination.

The success of a merger or acquisition depends, in part, on the cultural compatibility of the two organizations.

The Open Marriage

In an ‘open marriage’, the acquiring firm accepts the acquired firm’s differences in personality, or organizational culture, unequivocally (Cartwright and Cooper 1993a, 63-4). The acquiring firm allows the acquired firm to operate as an autonomous business unit but usually intervenes to maintain financial control by integrating reporting systems and procedures. The strategy used by the acquirer in this type of acquisition is ‘non-interference.’

Traditional or Redesign Marriages

In ‘traditional or redesign marriages,’ the acquirer sees its role as being to dominate and redesign the acquired organization. These types of acquisitions implement wide-scale and radical changes in the acquired company. Their success depends on the acquiring firm’s ability to displace and replace the acquired firm’s culture (Cartwright and Cooper 1993a, 64). In essence, this is a win/lose situation.

The Modern or Collaborative Marriages

Successful ‘modern,’ or collaborative, mergers and acquisitions rely on an integration of operations in which the equality of both organizations is recognized. ‘The essence of the collaborative marriage is shared learning. In contrast to traditional marriages, which centre around destroying and displacing one culture in favour of another, collaborative marriages seek to positively build on and integrate the two to create a “best of both worlds” culture’ (Cartwright and Cooper 1992, 74). In collaborative marriages the two organizations are in a ‘win-win’ situation.

Acculturation

Regardless of the cultural fit, all mergers and acquisitions will involve some conflict and turbulence during a necessary process of acculturation.

All mergers will involve some conflict and turbulence.

The Conflict Stage

While the two firms try to overcome their difficulties, each firm, depending on the merger type, the amount of contact each has with the other, and its cultural strength, will compete for resources and try to protect its turf and cultural norms.

The Adaptation Stage

Conflict between the two organizations will eventually be resolved either positively or negatively. In a positive adaptation, agreement will be reached concerning 'operational and cultural elements [that] will be preserved and [those] which will be changed' (Nahavandi and Malekzadeh 1993, 62). In a negative adaptation, the conflict will be manifested as employee dissatisfaction and high turnover rates, which could result in operational under-performance.

Four Modes of Acculturation

Cartwright and Cooper (1993a, 65,66) have identified four different modes of acculturation.

Assimilation

Assimilation is the most common method of acculturation and results in one firm, usually the acquired firm, relinquishing its culture willingly and taking on that of the acquiring firm. Thus, the acquiring firm undergoes no cultural loss or change. Generally, the acquired organization has had a weak, dysfunctional, or undesired culture. Therefore, the new culture usually dominates and there is little conflict.

Integration

If the cultures are integrated, the acquired firm can maintain many of its cultural characteristics. Ideally, the merged firm retains the best cultural elements from both firms. During integration, conflict is heightened initially, as two cultures compete and negotiate but it is reduced substantially upon agreement by both parties.

Separation

If the acquired firm has a strong corporate culture and wishes to function as a separate entity under the umbrella of the acquiring firm, it may refuse to adopt the culture of the acquiring firm. Substantial conflict may be engendered and implementation will be difficult.

Deculturation

Deculturation is the least desirable possibility. It occurs when the culture of the acquired firm is weak, but it is unwilling to adopt the culture of the acquiring firm. A high level of conflict, confusion, and alienation is the result.

Human Resource Implications

Mergers and acquisitions can be threatening for employees and produce anxiety and stress. Hunsaker and Coombs (1988, 58) found identifiable patterns of emotional reactions experienced by employees during a merger or acquisition; they have labelled this phenomenon the 'merger-emotions syndrome.'

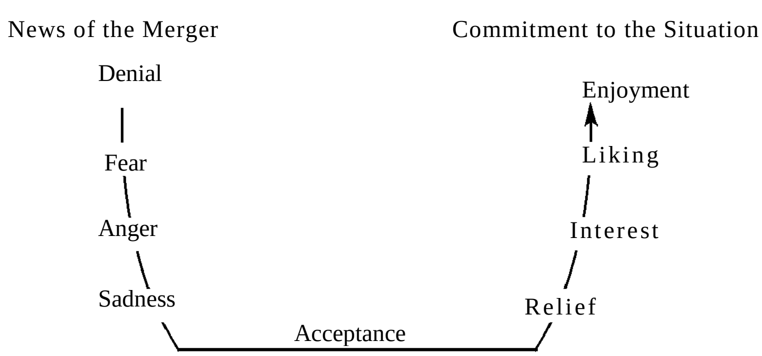
The Merger-Emotions Syndrome

- **Denial.** At first employees react to the announced merger with denial. They say it must be 'just a rumour.'
- **Fear.** When the merger becomes a reality, employees become fearful of the unknown. For example, workers become preoccupied with job loss.
- **Anger**. Once employees feel that they are unable to prevent the merger or acquisition from taking place, they begin to express anger towards those who are responsible. In many instances, employees feel like they have been 'sold out' after providing the company with loyal service.
- **Sadness.** Employees begin to grieve the loss of corporate identity and reminisce about the good old days before the merger.
- **Acceptance.** Once a sufficient mourning period has elapsed, employees begin to recognize that to fight the situation would be useless, and they begin to become hopeful about their new situation.
- **Relief.** Employees begin to realize that the situation is not as inauspicious as they had envisioned and that the new employees they interact with are not as bad as they had predicted.
- **Interest.** Once people become secure with their new positions or with the organization, they begin to look for positive factors and for the benefits they can achieve through the new entity. They begin to perceive the new situation as a challenge in which they can prove to their organization their abilities and worth.
- **Liking.** Employees discover new opportunities that they had not envisioned before and begin to like their new situations.
- **Enjoyment.** Employees discover that the new situation is working out well and feel more secure and comfortable.

There are identifiable patterns of emotional reactions during a merger.

Figure 2 illustrates the stages in the syndrome, showing the downswing, plateau, and upswing.

Figure 2
Stages in the Merger-Emotions Syndrome



Source: Hunsaker and Coombs (1988, 60).

Companies may need a merger stress Management plan to alleviate employee stress.

The merger-emotions syndrome provides management and researchers with the opportunity of pinpointing the emotional stage of the employees of an acquired corporation. Management should recognize that these emotions exist among the employees and deal with them as expeditiously as possible. At a minimum, managers should provide positive feedback to employees, emphasizing that their performance is commendable under the stressful situation brought about by the acquisition, in order to alleviate negative work-related feelings.

Employee Stress

Even the best-orchestrated mergers can be 'threatening, unsettling, and stressful for some employees' (Schweiger and Ivancevich 1985). Cartwright and Cooper (1993b) found that under acquisitions and mergers 'managers had significantly higher [abnormal] mental health scores than the normal population' and a higher percentage of the acquired corporation's managers had 'scores comparable [to] or higher than psychoneurotic outpatients.' Some common merger stressors include uncertainty, insecurity, and fears concerning job loss, job changes, job transfers, compensation changes, and power, status, and prestige changes (Schweiger and Ivancevich 1985). They can lead, in turn, to organizational outcomes such as absenteeism, poor performance, and higher employee turnover. To alleviate merger stress, Schweiger and Ivancevich recommend that a merger stress management plan be implemented, which could include the following strategies.

Merger Stress Audit

A merger stress audit assesses employees perceptions of the merger. Management uses it to identify collective concerns and implement programs to alleviate them.

Realistic Merger Previews

A realistic merger preview informs employees about what to expect once the acquisition takes place, in order to help them through the transition. It can be provided through various media (for example, a video, booklets, or presentations) and should include information about the following:

- Organizational goals, missions, and markets
- Management style and organizational culture
- Work schedules, benefits, and compensation
- Equipment, resources, and information flow
- Job security
- Career paths
- Training and development
- Performance evaluation. (Schweiger and Ivancevich 1985)

Individual Counselling

Because 'any major departure from our normal lifestyle acts as a trigger for stress and insecure feelings' (Sinetar 1981, 863), counselling on an individual basis to help employees overcome merger stress and fear and to suggest coping strategies may help alleviate negative reactions. Moreover, since acquisitions provide different opportunities for career mobility, counselling can direct employee energies towards new career paths and reaffirm employee commitment to the new organization.

Merger Stress Management Training

Voluntary stress management training might be provided on a group basis. Employees would share their fears and concerns and would be guided through methods and processes to alleviate these dysfunctional stress responses.

Communication

During mergers and acquisitions, employees are often kept in the dark about the sale of the corporation. They often hear about the acquisition on a less than timely basis, through the press or through the corporate grapevine. This can lead to a distorted or misrepresented picture of the acquisition's ramifications and to counterproductive activities by employees, who may be anxious about possible job losses. Therefore, wherever possible, corporations should 'aim to inform all employees at the same time, concurrently [with] or in advance of any press release or radio announcement' (Cartwright and Cooper 1992, 103).

Management must listen to and communicate with employees and relay accurate and comprehensive information.

As mentioned, upon notification of the acquisition, employees will likely experience 'shock, disbelief and grief . . . followed by resentment, anger or depression' (Sinetar (1981). During this period, management must continue to listen to and communicate with employees and relay accurate and comprehensive information as expeditiously as possible. However, 'information should not exceed the information actually known by management. It is far safer for management to acknowledge the lack of information than to give responses that may later prove to be incorrect. Management should also indicate that when more information is available, it will be passed on to the employees' (Davy et al. 1989, 88).

Any layoffs or downsizing should be conducted as soon as possible to alleviate anxiety and reduce rumours and to allow employees to return to business as usual.

Employee/Management Turnover

J.P. Walsh's (1988) research on the employment status of top managers for five years from the date of an acquisition indicates that following an acquisition or merger, top management turnover is 'significantly higher than normal turnover rates, and that visible, very senior executives are likely to turn over sooner than their less visible colleagues.' Walsh discovered that management turnover in acquired corporations 'increased from 25 percent in the first year after the merger, to 59 percent (inclusive) in the fifth year. The turnover rate in [a] control group of non-merged companies also increased steadily through time, but at a lower rate. The turnover rate ranged from 2 percent to 33 percent' (177). Because managers' positions following an acquisition may be unclear for some time, they may seek better-defined positions with other organizations in the industry (Napier 1989).

Another reason for the high turnover may be that 'the executives of the acquired firm are treated as if they had been conquered, causing them to feel inferior and experience a loss of social standing' (Nord 1994, 81). Cartwright and Cooper (1992, 101-2) see the acquisition announcement as symbolizing the death of a company as its employees knew it: 'It is hardly surprising that the social gatherings between the two managerial groups which tend to accompany such announcement are so often uncomfortable, with one group treating the event as something of a birthday party and breaking open the champagne and the other participating more in the spirit of a wake and taking solace in a few stiff drinks.'

Managers' feelings of insecurity and loss may cascade downward through the organization. Anxiety and insecurity will divert the employee's attention away from business needs and focus on negative aspects, such as why the merger won't work. Thus, it is imperative to conduct a 'talent audit' before the acquisition, to ascertain the managerial and personnel talent which the acquiring organization wants to or must retain for future success.

Nevertheless, Hunt (1987, 24,25) found little evidence that acquiring companies make any attempt to conduct such an audit. As a result, after an acquisition management and staff talent is often less plentiful than had been anticipated.

When employees leave they often take with them competent staff members and clients.

Cartwright and Cooper (1992, 116) stress that when employees leave they often take with them competent staff members and clients, which could severely hamper the new organization's financial profile. Moreover, if a significant amount of personnel talent leaves the organization, there may be little point in acquiring it.

Job Satisfaction

Robino and Demeuse (1985) surveyed personnel managers who had been involved in a corporate merger or acquisition. They measured employee job satisfaction before and after the combination on the following criteria: pay levels, employee benefits, job security, communication levels, participation in the decision-making process, opportunity for professional growth, development of personal job skills, promotion potential, and overall job satisfaction.

> [A]ll eight facets of satisfaction measured in the study decreased in the acquired companies during the course of the combination. Job security, communications and participation in the decision-making process were particularly affected. Likewise, in the acquiring companies managers felt that job satisfaction decreased in most instances, but not to the extent as in the acquired companies. Satisfaction was reported to have increased in the acquiring companies in two areas: opportunity for professional growth and promotion potential. (39-40)

Thus, job satisfaction decreased for both the acquired and the acquiring organization after an acquisition, perhaps because of the ambiguity and uncertainty of job retention felt both by employees and by managers.

Downsizing and Its Impact

Depending on the type of merger or acquisition and the amount of integration between the two organizations, some duplication of functions is likely to occur, resulting in the termination of some employees and managers. Other employees are often forced to pick up the slack and do this obediently for fear of being the next to receive the pink slip. The increased workload and the potential threat of layoff causes considerable stress for employees, particularly in the acquired organization.

To alleviate the ill effects of downsizing and the resultant stress, Hunsaker and Coombs (1988, 63) and Nahavandi and Malekzadeh (1993) recommend that personnel decisions regarding job loss or changes in responsibilities should be communicated openly and as soon as possible. 'The longer the fear of the unknown exists, the more damage will be done as the most qualified people look for more secure positions, and the other employees scurry to ensure security for themselves' (Hunsaker and Coombs 1988, 63).

To dispel or correct misinformation, employees should be apprised of any downsizing strategies. Sheehy (1988, 40) recommends that 'If some downsizing and rationalizing is necessary, be honest about it. Tell people what's going to happen. Don't drag it out. Get the bad news behind you.' If downsizing strategies are conducted in this manner, at worst management's integrity will remain intact, and any future communications to employees by management will seem credible. If they are not, employee commitment to the organization may be thwarted and may not be regained for some time if at all.

The ‘Them-Us’ Syndrome

After the acquisition has been formally announced, employees of both organizations tend to adopt a ‘them and us’ stance, particularly in the acquired organization, if employees have perceived the acquisition as a loss. A ‘merger can emphasize or even exaggerate the differences in status between employees; the resultant structure is often a constant reminder of who the `winners” and who the `losers” are’ (Hunsaker and Coombs 1988, 57).

Differences in organizational cultures including management styles can lead to competition between employee groups. Distorted perceptions and hostile feelings toward the other group become common and responsibility for ‘why things were not going as well as they should, why communications were so poor, or why `I” or my boss was not fairly treated [are] routinely attributed to the other [side] . . .’ (Buono, Bowditch, and Lewis 1985, 492). This can be described as the ‘arm wrestling’ phase and is exemplified in the following passage from Robino and DeMeuse (1985, 39):

Differences in organizational cultures including management styles can lead to competition between employee groups.

> I have listened to numerous accounts of the devastating impact that mergers and acquisitions can have on the human dimension of the business world. Few are as emotional as those describing the ‘hybrid’ work groups that result from many combinations. In some extremely ill-conceived situations an executive will end up supervising his counterpart from the other organization. A marketing executive in a Fortune 100 firm told me that he found himself in a situation just like this, managing a hybrid staff, including his functional counterpart from the acquired firm. The physical combining of his staff had occurred months before he recounted this to me. His staff had suffered from low morale, poor cooperation and in-fighting.

It is therefore obviously very important to try to avoid the ‘we/they’ attitude by carefully and strategically mixing employees as much as possible at all organizational levels. Caution should be exercised when combining departments so that functional counterparts are not placed in positions of subordinate and supervisory relationships.

Facilitating Easier Transitions

The following recommendations for successful integration during mergers and acquisitions are not to be construed as exhaustive or mandatory. Each merger and acquisition is unique. Perhaps only some of the strategies may be appropriate, or additional actions may be required.

The recommendations should be implemented on a proactive rather than on a reactive basis. When the negotiations for the acquisition or merger have been completed, strategies incorporating the recommendations should be formulated to ensure that the human aspects will not hinder, but rather will facilitate, successful combination of the two organizations. It is imperative for management to recognize that

> In the final analysis, it is employees who allow an organization to realize its change objectives. It is only when they truly understand the need for change, the direction set, and are actively engaged in the process that change can happen. Faced with a ‘burning platform’ in particular, most will be responsive to new approaches, but it is only when the infrastructure and support mechanisms are in place that they can give their support to implementing change. (Shepherson 1994, 7)

Strategies to facilitate the transition should be implemented on a proactive basis.

Conduct a Cultural Audit

Both the acquiring and the acquired organization should conduct a cultural audit to ascertain not only their own culture type but that of the acquired organization. This will reveal the differences in values, beliefs, norms, practices, and procedures. The audit will allow the parties to assess the 'goodness of fit' of the two organizations and to foresee possible barriers to the acquisition. It will also allow the parties to determine what elements in both cultures are worth retaining.

Conduct a Merger Stress Audit

Schweiger and Ivancevich (1985) suggest developing and administering an attitude survey to all employees to assess employee perceptions of the merger and identify employees who are having a hard time adjusting. The audit should include areas such as compensation, rewards, job duties, job security, and co-workers. The data accumulated from these surveys should allow management to plan a program or develop tools to minimize stress and aid employees in making the transition to the new culture. In addition, it will allow management to pinpoint departments which are having particular difficulty.

Provide Employees with Avenues to Express Concerns

To avoid confusion and faulty communication or to provide answers to employee questions, a formal structure, task force, or person should be delegated to address employee concerns. All employees should be made aware of this function and have equal access to it. Hunsacker and Coombs (1988) suggest that a merger-integration team should be established, composed of representatives from all levels of the organization in order to effectively address concerns.

Provide Positive Feedback

To help alleviate the insecurity and fear of the employees the corporation wishes to retain it is imperative that the organization provide them with positive feedback or reassurance, perhaps by communicating to them that they are performing admirably or, at worst, satisfactorily, given the difficulties of the acquisition. This will help dispel negative emotions and foster a more positive work environment.

Recognize that the Merger Emotions Syndrome Exists

Management must recognize and try to assist employees in going through the merger emotions syndrome and develop tools to assist employees in overcoming difficult stages. This will reduce the likelihood of employees becoming stuck in one particular stage and engaging in dysfunctional work activities.

Prepare and Deliver a Realistic Merger Preview

A realistic merger preview depicting job expectations altered by the acquisition will allow employees to 'cope more realistically with [new or modified] job demands' (Schweiger and Ivancevich 1985, 58). This will be especially beneficial for employees of the acquired organization. It will also provide employees with a better understanding of the acquiring corporation's goals, reporting systems, and culture, and it can help employees understand the logistics behind any work redesign.

Provide Individual Counselling

Individual counselling on personal adjustment and stress coping strategies can assist the employees to 'solve the problem(s) associated with merger stress; recommend, demonstrate and initiate coping with merger stress strategies; or improve the employee's mastery' (Schweiger and Ivancevich 1985). In addition, as mentioned, a counsellor can unveil new career paths and job opportunities within the newly acquired organization, which can provide incentives for employees to remain with the organization.

Conduct a Talent Audit

Because acquisitions and mergers increase the likelihood of employee turnover, it is imperative for the acquiring organization to investigate what kind of personnel talent it wishes to retain. It will then be able to assess the talent, and identify the redundancies and the employees it wishes to dismiss.

Conduct Downsizing Strategies As Soon As Possible

Downsizing strategies should be in place and layoffs should occur as soon as possible after the acquisition (Nahavandi and Malekzadeh 1993; Hunsaker and Coombs 1988; Sheehy 1988). This will help to reduce stress and allow employees to return to business as usual as soon as possible. The longer the fear of the unknown exists, the more time employees will have to seek alternative employment. If employees realize layoffs are possible, unfounded rumours may result in unproductive behaviour, creating havoc in the workplace.

Try to Eliminate the Them-Us Syndrome

Acquiring organizations should try to eradicate any arrogance on the part of their personnel to ensure that acquired employees do not feel inferior and 'conquered.' A post-acquisition atmosphere fostering mutual respect among management groups will facilitate a better understanding of the others' perspective and make a smoother transition (Datta 1991).

Communication

Communication is of utmost importance in every stage of a merger or acquisition. Management should share as much information as it can with employees before, during, and after the acquisition. This will help reduce or dispel the unfounded rumours which cause negative emotions and unproductive behaviour. The mere act of communicating and listening will be interpreted by employees as some form of respect, which 'alone may cause a shift towards more positive attitudes' (Hunsaker and Coombs 1988, 62).

Try to Establish a Common Culture

Both organizations, the acquiring and the acquired, will have unique and beneficial cultural elements. Rather than imposing one organization's cultural elements on the other, 'the best of both companies can be integrated into a common culture for the new organization' (Hunsaker and Coombs 1988, 62). This can create a win-win situation for both organizations, since it will result in a corporate culture with which both sides can identify.

Management often fails to acknowledge that culture and human resource issues can actually cause a merger to fail.

Conclusions

A proactive strategy for dealing with corporate culture and human resource issues is fundamental to the success of mergers and acquisitions. However, these issues are rarely considered until serious difficulties arise. According to Hunt (1987), the personnel function was involved in only one-third of all the mergers and acquisitions he studied: management often fails to acknowledge that culture and human resource issues can actually cause

Careful proactive planning by the acquiring organization to reduce the emotional fallout can ease the transition and reduce the risk of failure.

a merger to fail. Acquisition managers must recognize that 'the role of people in determining merger and acquisition outcomes is in reality not a soft but a hard issue. Without the commitment of those who produce the goods and services, make decisions and conceive strategies, mergers and acquisitions will fail to achieve their synergizing potential as a wealth-creating strategy' (Cartwright and Cooper 1992, 142).

This study has highlighted the importance of considering and strategically addressing corporate culture and human resource issues concurrently with financial issues. It has also illustrated the importance of dealing with these issues before, during, and after an acquisition or merger. Careful proactive planning by the acquiring organization to reduce the emotional fallout can ease the transition and reduce the risk of failure for an otherwise advantageous merger.

Much of the research on human resource strategies in mergers and acquisitions is reactive and descriptive, and only recently have tools been devised to proactively investigate and alleviate potential obstacles. Moreover, most of the research examines cultural and human resource matters for a relatively short period, but they need to be studied on a longitudinal basis. Caution should therefore be exercised in implementing the recommendations set out here, since they are only general guidelines and are not to be construed as remedies for all the ailments associated with mergers and acquisitions. Each transaction is unique. However, it is to be hoped that future research will provide human resources managers with better insights into both short- and long-term effects of mergers and acquisitions and with solutions to the problems inherent in them.

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