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Mergers as a Discussion Backdrop

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ABSTRACT

The employee stakeholder has a small voice when merger or acquisition decisions are being made. This paper illuminates the human element hidden within the Merger and Acquisition process. The paper reviews workplace concepts such as trust, change leadership, communication, and employee resistance.

Keywords: Managing people, mergers, acquisitions, change, workplace trust, organizational culture.

1 INTRODUCTION

The process to merge two companies, or for one company to acquire another, offers management researchers an opportunity to discuss the impact on the human asset within this transaction. It is understood that organizational leaders that buy, sell, or merge companies, do so with the intention of improving the economic position of its principals (Schuler & Jackson 2001). Yet there are stakeholders that are negatively affected by a change in leadership due to a merger or acquisition (Buono & Bowditch 1989). How a company is assumed or acquired may have a positive impact on shareholders, but a negative impact on employees (Mackenzie, Penniman, & Woodsworth 2013). The opinions vary on whether a merger is desirable primarily because the financial benefits outweigh the costs (Auerbach 1988). Can a true value be calculated without considering the role of employees' knowledge and talent? Though it has been suggested that "…corporate empire builders have increasingly placed their faith in organizational growth through merger and acquisition," firms overestimate the potential economic benefit as well as the ease of combining organizations so that the resulting structure can be successful (Buono & Bowditch, 1989, 7). The discussion of people vs. process, as relates to mergers and acquisitions, is the focus of this conference paper and discussion.

2 LITERATURE REVIEW

Research findings on companies that are led by their founders reflect stronger and more stable corporate cultures (Fauchart & Gruber 2011). Acquisitions, or even a shift from being privately to publicly held, can change the leadership focus, moving the organizational mission away from the employees tightly held assumptions and beliefs; thereby damaging the intangible assets of the target business. Post-merger integration is essential, yet may focus solely on process, and not on the people. Poorly executed post-merger integration has been cited as a cause for acquisitions ending up as divestitures within two years (Buono & Bowditch 1989).

Corporate culture is a primary variable underlying the success or failure in a merger. It is comprised of layers starting at the explicit and observable *artifacts* such as banners, stories, and promotional processes, and moving deeper to less explicit levels such as *values* (Buono, Bowditch & Lewis 1985). Corporate culture is a pervasive influence on organizations and can increase or decrease the value of an organization, no different than other intangible assets, such as company reputation, customer loyalty, and analyst confidence.

Trust, fear, and security therefore become relevant topics when discussing lessons learned from the outcomes of mergers or acquisitions. These human conditions are tightly tied to the influence of change upon the culture. Change management literature offers a context within which we can better understand employee fear, trust and security issues (Deal & Kennedy 2000).

Management Resistance

If management is resistant to being acquired, then the purchasers may take the path toward a hostile take-over. As a result, the acquiring firm may go directly to the stockholders via a public tender offer. This public awareness may cause other suitors to enter the market, thereby increasing the activity and the offered price. But, if the acquiring company threatens to replace the acquired company's managers, these individuals may further resist, regardless of whether the stockholders will benefit (Ruback 1988; Shleifer & Vishny 1988).

The managers of the target firm may attempt to buy their own company and take it private. A management buy-out (MBO) is a form of acquisition; the managers borrow the money by inviting the participation of investment bankers to partner with them to buy the publicly held stock of their company. The outcome appears financially beneficial to stockholders, who earn a premium price on their stock; managers, who gain a larger equity stake in their company and retain their roles; and, investment bankers who gain both fees and a high return on their investments (Shleifer & Vishny 1988). And though managers may retain their position, they are often left with large debt payments owed to their investment banker colleagues (Mackenzie et al. 2013). The MBO restructuring "give managers greater incentives to cut costs and to budget capital more responsibly" (Shleifer & Vishny 1988, 101). This may lead managers to take action upon the company in the form of asset sales, layoffs or unprofitable operation shut-downs. The new pressure to gain efficiencies benefit the organization with a renewed profitability focus, but the security bestowed on the

managers may result in less job-security on the non-management employees. This leads to the discussion and influence of workplace trust.

Workplace Trust

A corporate merger or acquisition often requires company processes to be revised, communication to span company boundaries, and unfamiliar groups of employees to cooperate with management. The events related to a merger or an acquisition may have a profound impact on the people who spend their working lives in these organizations. Research has revealed that the impact of the merger or acquisition is often negative. Employees "watch co-workers get laid off, their career paths and aspirations evaporate, their cynicism increase, and their faith in their leadership diminish" (Marks 1994, vii).

Employee trust in leadership is closely tied to workplace health (Mackenzie 2010). Helliwell (2008) suggested that employees' trust in their coworkers and their managers is among the chief workplace factors that influence life satisfaction. A loss of trust will interfere with the optimization of the employees' talents (Mackenzie 2010). This can lead to the erosion of work performance, increases in turnover, and a reduction in subordinate support for managers (Merriman, Schmidt, Ross, & Dunlap-Hinkler 2004, 13). Jacobs (2008, 53) recognized that lost trust is difficult to regain. Productivity, morale, quality and the organizational culture can be hurt if managers fail to recognize that their workplace behaviors can damage their employees trust in them. (Merriman et al. 2007; Merriman et al. 2004).

Faith and trust influence the relationships among individuals and groups (Martins 2002; Helliwell 2008). Trust is necessary for individuals to effectively transfer knowledge. A significant influence upon the workplace relationship is the trust in the leader (Ballinger & Schoorman 2007). Sadly, "senior executives generally score low on employee trust" (Krell 2006, 59).

Managers in a fast moving and quickly changing workplace environment, which is the case with a corporate acquisition or merger, need to have employees trust in their ability and direction (Lufkin 2006). An essential lesson is that "trust takes a long time to build, it can be easily destroyed, and is hard to regain. Also, since breaking trust gives rise to distrust, maintaining trust requires careful attention from management" (Martins 2002, 754; Mackenzie 2010).

Employee Resistance to Change and the Leaders' Role

The social identity of the employee with the workplace allows the employee to understand his or her role and to function effectively (Fauchart & Gruber 2011). Employees will reject, interpret, and even distort information based on these beliefs and mental models. Anger and insecurity can emerge when these models and symbols are altered without proper justification (Marks 1994, 34; Deal & Kennedy 2000, 157). Organizational *change* within a healthy work environment is viewed as "a path to a known state: something discreet, with

orderly, incremental and continuous steps … It may cause some disruptions and require some adaptations, but its discrete nature allows people to know exactly what to expect and lets them get on with their lives inside and outside the organization" (Marks 1994, 17). A *transition* "is a path to an *unknown* state … transition poses a break from the past … adapting to transition is much more psychologically taxing than is adapting to change" (Marks 1994, 18). Clearly, this *is* the situation with either a merger or an acquisition.

A merger or acquisition involves stakeholders, whom will respond *differently* to the transition required of a merger. An external stakeholder with solely economic ties, such as a shareholder, may never experience the psychological stress of the transition. Yet, internal employee stakeholders will bring their "personal needs to the organization in which they work" (Carson 1999). For many workers, including lower-level managers, "change is neither sought after nor welcomed. [Rather] it is disruptive and intrusive" (Strebel 1996). And, unfortunately, employees tend to view change with suspicion and negativity, until they are prepared to think otherwise (Conner 1993). The employee stakeholder is most directly influenced because "the merger is a source of high uncertainty and reduced job security," which may damage the economic value of the merger because of the employee's resistance (Fitzgibbon & Seeger 2002, 47). When two companies merge, "radically innovative change" may be especially intimidating to long-term employees and will lead to the greatest resistance (Carson 1999).

After a merger or acquisition the communication style of leaders must help employees revise their mental models so that changing products, processes and practices are accepted as good and necessary. Employees need security to permit predictability to reenter their workplace lives (Vlamis 1999, 14-15). Only then, if successful, will the culture adapt (Deal & Kennedy 2000, 158). If possible, employees' should be actively involved in the change process (Kim & Mauborgne 2003, 128). If change occurs without any frontline employee involvement, they will judge their managers more severely (Strebel 1996). If leaders are not able to persuasively espouse and support an explanatory vision for the transition, then "the force of the old culture can neutralize and emasculate a proposed change" (Deal & Kennedy 2000, 158) with strategically valuable decisions being undermined (Woodward & Hendry 2004, 159).

3 THE CASE OF BENQ-SIEMENS

The case of BenQ's acquisition of Germany's Siemens mobile phone division illustrates a failure that is attributed to both communication and culture (Cheng & Seeger 2012). The acquisition created the fourth largest mobile phone brand, BenQ-Siemens. After losing 500 million Euros, Taiwan-based BenQ sought bankruptcy protection one year after the acquisition. Culture and communication are intimately connected, yet these organizations did not sufficiently consider these variables. Substantially different in their cultural roots, one represented the Oriental Confucian culture, which values tradition, perseverance, and social obligations (Hofstede 1994)

and the other the Germanic European culture, strongly focused on a strong work ethic leaning to the engineering viewpoint (Cheng and Seeger 2012, 120; Hofstede 1994, 12). BenQ is of a collective culture and Siemens of a highly individualistic culture. Another influential cultural difference is how the employees view their relationship to their superiors. The Asian culture has a very high power distance, respectful and obedient, whereas the German culture is lower in the power distance dimension, viewing the manager role as equal to the worker (Hofstede 1994).

A key factor cited in the failure of this acquisition was the management decisions emerging from the collectivist Taiwanese culture. With a view toward maintaining harmony, the BenQ chairman retained the Siemens division executive leader, Clemens Joos, along with 2800 research employees, believing that the result would be a cooperative and smooth transition (Cheng & Seeger 2012, 120); but the BenQ chairman realized his mistake in not replacing the leadership after the acquisition, which would have allowed for a rapid, less obstructed restructuring. The German individualist culture places the workers' families over the collective good of the workplace community and organizational goals. Also, the role of leadership as perceived by BenQ, with a strong respect for the authority of management, was not consistent with the German culture, where labor unions are strong, vacations are plentiful, and no one works on the weekend. BenQ's need to heavily cooperate with labor unions was an unplanned bump in a much damaged road.

Fear and suspicion clouded the merger and caused the Siemens workers to distrust their new leaders viewing them as incompetent; totally unprepared to assume their role in the German market. Additionally, the Siemens workers felt that the German executives had betrayed them, knowing that BenQ could not save the division. The workers accused the German executives of abandoning them to avoid the traditionally large payoffs expected by workers when jobs are lost (Cheng and Seeger 2012). Furthermore, the weak communication from the German leaders in the early stages of the acquisition, leading to the transition to BenQ, created severe uncertainty and distrust, stress and turnover. BenQ, having the greater reason to comfort the employees, did little to establish strong internal communication processes that may have reduced the fear and uncertainty. Post-acquisition new business strategies were being introduced with the intent of rescuing the company; but, communication was confusing and inconsistent. "The organization should never have assumed that the employees would understand why these transitions and changes were taking place. Poor communication only confuses employees and undermines top-down implementation" (Cheng & Seeger 2012, 123).

As failure became inevitable, the collective culture to avoid shame, not for oneself, but for the group, led BenQ's senior leader to take full public responsibility for the failure, intentionally preserving the reputation of others. "Thus, with respect to Lee's long-term leadership, directors at BenQ rejected Chairman Lee's resignation" (Cheng & Seeger 2012, 125). This case provides value lessons pertaining to communication before, during and after an acquisition as well as the severe, at times unseen, influence of cultural differences.

4 THE CASE OF DAIMLER-CHRYSLER AG

The second case, which illustrates the intent of leadership to effectively optimize communication before, after and during a merger, is that of Chrysler Corp. in its merger with Daimler Benz. The failure provides a lesson that employees require an alignment in the cultural artifacts; what is espoused must also be enacted. The espoused values will be tested as leaders' behaviors reflect their true intent.

Chrysler Corporation and Daimler Benz appeared to be a merger of equals; they produce similar products within the same industry and are of similar size. The announcement of the merger in May 1998 communicated a collaboration that would result in an organization, Daimler-Chrysler AG, with a "truly global reach" (Fitzgibbon & Seeger 2002, 47). It was only a few years earlier in 1993 that had the Chrysler CEO, Robert Eaton, articulating the desire for the company to "stay healthy" and focus on "nuts and bolts" management. He stated that he would be the first chairman to "never lead a Chrysler comeback" (Marks 1994, 209). Yet, it was Robert Eaton who partnered with Daimler chief executive, Jurgen Schrempp, on the "explanatory and justificatory discourse ... directed to external audiences, primary shareholders, internal audiences, employees as well as dealers ... designed to primarily overcome resistance to the creation of this new global corporation" (Fitzgibbon & Seeger 2002, 40). But a year after the merger the Chrysler group revealed a drop in both sales and market share. Prior to the merger Chrysler held 16.1% of the American auto industry reporting a 20% sales increase over prior year. The year later revealed a drop of 4% in sales and a market share of 15%. Two years post-merger showed a further reduced market share of 13.6%. January 2001 had Daimler-Chrysler AG announcing an elimination of 26,000 jobs in its Chrysler group along with a major restructuring (Fitzgibbon & Seeger 2002). So, what happened, and what can be learned?

As in the BenQ-Siemens case, the influence of culture was under estimated. Both companies' communication content had to reduce the doubt that major stakeholders had in this merger; each stating that the ability to gain a global presence would not have been realized without this merger. The sequence of public awareness for the merger started on May 5th with "leaked news of the potential Daimler Benz-Chrysler merger," followed by a Chrysler Corp. released statement on May 6th confirming that discussions were taking place, and an announcement of the merger in London on May 7th 1998 (Fitzgibbon & Seeger 2002, 44). To manage the doubt, three communication speaking points were established and frequently repeated: (1) the companies formed a perfect fit due to the complementary strengths, no overlap, and common cultural mission. (2) The creation of a global entity as the result of economies of scale, yet the retention of each company's markets and unique brands. (3) A voluntary marriage of equals, which reinforced that "Chrysler would be allowed to maintain its uniqueness" even though the

new entity would be incorporated in Germany (Fitzgibbon & Seeger 2002, 49).

The outcome that these communicated metaphors were not grounded in reality, led the merger to failure. Chrysler's culture was one of transparency with stakeholders strongly embedded in its transformation following it historic bailout and near bankruptcy. Americans took pride in Chrysler's recovery, many feeling that they took part in saving this company by intentionally buying its products. Labor and leadership had an exceptional relationship with the president of the United Auto Workers Union sitting on its board, and employees remembering the sacrifices made with pride, to save their company. The Americanization aura that surrounded Chrysler emerged from Iacocca's advocating for limiting Japanese imports in favor of the patriotic path of buying a US made car. Even the Jewish community favored Chrysler over Ford due to Ford's alignment with Germany during the war. Now, with their company not only collaborating, but incorporating in Germany, these cultural beliefs were being damaged. The marriage of equals' metaphor, though constantly reinforced in both sets of leaders' communications, was not believable, especially "as top Chrysler management left the company" and the marriage metaphor was reframed by employees with a less than positive interpretation (Fitzgibbon & Seeger 2002, 50).

What happened? External discourse, once tested, failed to align with real decisions. For example, the Chrysler PR department was restructured so "all communication post-merger had to be cleared through Stuttgart, Germany," making Chrysler US clearly subordinate to Germany's Daimler Benz (Fitzgibbon & Seeger 2002, 52). The elimination of 26,000 US jobs on January 2001 changed Chrysler group from an equal partner to a subordinate business unit under the larger German based organization. The confusion and lack of confidence in the "marriage of equals" was an influencing factor in the stock value drop from the new entity's initial value of $70 to the $48 value early in 2001.

The intentions of both firms were sincere, but the severe cultural differences could not be resolved once the strategic path did not align with the communicated metaphors. "In many instances, the initial metaphors were increasingly inconsistent with the emerging reality" (Fitzgibbon & Seeger 2002, 53).

5 CONCLUSION

Following the merger or acquisition, leadership must embrace the reasons to help the survivors recover (Harrison-Walker 2008), but self-talk that may include sentiments such as, "it's a lousy economy out there, aren't people glad to have a job?" or "Aren't there others waiting in line for their jobs," or "people don't want to look to the future, rather dwell on the past," and finally "haven't people always dealt with change and transition in organizations?" (Marks 1994, 22-24). These rationalizing beliefs about the solely economic relationship between employees and employers neglect the human element that makes an organizational culture healthy and optimizes performance. Schuler and Jackson (2001) provide a roadmap to

help employees return to normalcy. These take place first at the company level with a clear vision of the post-merger organization and the predictability of the integration strategies. Also, the role of Human Resources must be prominent with problems handled quickly and sensitively, recognizing that "unmanaged cultural differences will lead to miscommunications and misunderstandings" (Schuler & Jackson 2001, 251). Relevant to understanding communication is Johlke et al.'s research (2000), which revealed the difference between informal and formal communication styles; employees need both. Therefore, an essential lesson is that senior leaders as well as frontline managers must select the appropriate communication style, based on the situation, to ensure that an employee feels connected to the organization, his or her manager, and the other team members (Solomon 2001, 60). "The objective of organizational revitalization is not merely to recover from transition, but to rebound with a workforce that has an enhanced capacity to operate competitively." (Marks 1994, 24-25).

6 ACKNOWLEDGEMENTS

7 REFERENCES

Provided upon request