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MANAGING THE HUMAN ELEMENT: THE IMPACT OF A MERGER OR ACQUISITION

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ABSTRACT

Organizations that are acquired are done so with the intention of improving the economic position of the principals, yet, there are stakeholders who are negatively affected by a change in leadership due to a merger or an acquisition. How a company is assumed or acquired may have a positive impact on shareholders, but a negative impact on employees. The human aspect of mergers and acquisitions, and its impact on people and performance, is the focus of this paper. The authors will discuss the business related human behaviors such as management resistance, employee resistance, organizational transition, communication, and leadership's role.

Keywords: Mergers, Acquisitions, Human element.

INTRODUCTION

Organizations that are acquired are done so with the intention of improving the economic position of the principals, which can include entering a market, increasing market share, reducing competition, gaining talent or reducing startup time toward earning viable profit and a secured market presence [7]. Yet, there are stakeholders who are negatively affected by a change in leadership due to a merger or acquisition [3]. How a company is assumed or acquired may have a positive impact on shareholders, but a negative impact on employees. The opinions vary on whether a merger is desirable primarily because the financial benefits outweigh the costs [1]. The potential economic benefit of a merger or an acquisition, as well as the ease of combining organizations, may be overestimated [3]. The human aspect of mergers and acquisitions, and its impact on people and performance, is the focus of this research.

HUMAN ASPECTS AND IMPACTS

A target business includes the tangible and intangible assets of explicit employee knowledge and intellectual property, but also includes tacit knowledge, stored within the talents of the organization's employees [5]. An underestimation of the human element and employee knowledge is where missteps take place. Knowledge management research reflects the struggle in capturing and securing tacit knowledge [6]. A key employee may have knowledge that is

controlled by the company as a result of a contract or a non-compete agreement [2]. But, is the value of the key employee reduced if his or her cooperation has been compromised by a merger, acquisition or a hostile takeover [8]. If the loyalty of a critical mass of employees is shaken by the behaviors of new leadership, the value of the organization can be compromised. 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 and 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 [3].

Corporate culture is a variable underlying the success or failure in a merger. Trust can be shaken, fear is created and security compromised when the culture shifts. 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 researching the human element of a merger or acquisition. 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 [4]. In brief there are psychological challenges that employees face related to the changes that occur when their source of security, their job, is acquired or is merged with another organization. This research will include discussion on the business related human behaviors such as management resistance, employee resistance, organizational transition, communication, and leadership's role.

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