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The Strategic Process of Merger and Acquisition (M&A) Market Using Integrating Change Management

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Abstract

Purpose: The present study offers merger and acquisition (M&A) strategy based on prior studies to assist the organizational practitioners in two companies' cultures. In the analysis, a M&A plan to guide the evolving principles was created by present authors using change management model. **Research design, data, and methodology:** The successful M&A integration is setting goals, reconfiguring the cultural systems to align them with business goals. The employees must be involved, particularly with organizational change. Both companies also ought to undertake employee training following the resolving of worries and needs of employees. Finally, restructuring can include the moving of employees from areas where they may be struggling. **Result:** Discussing and trying to come to an agreement over which mode of acculturation would be most suitable in that particular state is the main focus. Practitioners of both Company A and Company B might find it much simpler to continue their focus and dynamism in the process of cultural integration. **Conclusions:** We believe that our approach adds an insight in the M&A literature. Managers at all levels of both organizations must take part in the process of M&A for both organizational cultures to come in sync and for change to take place.

Keywords: Merger and Acquisition (M&A), Firm Strategy, Structural Change.

JEL Classification Codes : G34, L10, L16.

1. Introduction

Going through a change is relatively disconcerting for any organization and consequently, great, aggravated pressure for noticing the acumens of change are put on the management of these organizations. When two companies go through a merger, having a successful merger and acquisition (M&A) will be heavily affected by cultural and organizational change. According to the study of Skypek (2014), the two merging companies can improve the possibility that they will make the most advantageous strategic decisions for their organizations by integrating change management examination into pre-agreement activities comprising the development of the acquisition approach, target determination, and due diligence.

The aspect of providing leadership and direction to an organization from a present state to an anticipated forthcoming state in delineation is called change management. The efficacious transitioning of individuals and organizations to a new structure for undertaking business is the essence of change management. Accounting for the people aspect of organizational, practice, and technology changes and emphasizing the readying of individuals to be efficacious in the novel, impending organizational environment are principal functions of change management. As leaders' opinions decide the direction that the organization takes, their role becomes crucial. Thus, organizational leaders and practitioners must

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comprehend how change is managed (Ajmal, Farooq, Sajid, & Awan, 2012). For that reason, the figure 1 indicates that successful M&A strategy should be conducted based on change management and leader's right direction and the present study will offer M&A strategy based on prior studies to assist the organizational leaders and practitioners in two companies' cultures through strategic change management and the direction of leader's opinion. There is little doubt that the organizational development principle and practice are vital for the process of identifying and developing strategic intervention for these components while the M&A involves a critical process of change management including the alignment of the companies' cultures, values, people, and behaviors (Jones, Aguirre, & Calderone, 2004). As a result, in the analysis, the present authors create a new M&A plan to guide the evolving principles using change management model.

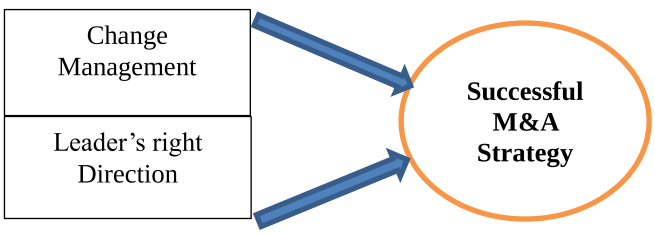

Figure 1: Two essential components for strategic M&A plan.

2. Research Gap in the M&A Literature

The numbers of Merger and acquisition (M&A) has grown dramatically and M&A strategy has become an increasingly general occurrence (Calipha, Tarba, & Brock, 2010). In response to the rise in M&A activities as well as the increasing complexity of such transactions themselves (Gaughan, 2010), the topic of M&A has been consistently investigated in academic literature and corporate M&A has long received a lot of attention from the corporate world, the public as well as the academic world. When looking at M&A broadly, the term can include several different transactions from the purchase and sales of undertakings, concentration between undertakings, alliances, cooperation and joint ventures to the formation of companies, corporate succession/ ensuring the independence of businesses, management buy-out and buy-in, change of legal form, initial public offerings and even restructuring (Picot, 2002).

As the main advantages of M&A's, creating synergies and diversification (Kim & Nofsinger, 2007), are more clearly understood, better combinations of separate companies have been increasingly needed. In terms of employees' perception, organizational culture, and national culture, the organizational change is repeatedly examined as a fundamental element of cultural changes in companies studied after M&As. Sometimes considered as unavoidable differences in a marriage between two organizations, cultural differences appear in both positive and negative way consequential to M&As. M&A has become a popular strategic activity, according to literature, and is expected to grow continuously. Significant amounts of literature have also explored different perspectives of M&A activities such as values created by M&A (Ruback & Jensen, 1983), factors affect the success of M&A (Appelbaum, Gandell, Yortis, Proper, & Jobin, 2000; Nguyen & Kleiner, 2003; Lipponen, Olkkonen & Moilanen, 2004), and M&A motives (Goldberg, 1983; Morrison & Floyd, 2000).

With most attention going to shareholders, considerable prior literature of M&A strategy shows mixed results in terms of the implication of M&A on effects for stakeholder groups (Ruback & Jensen, 1983; Lajoux & Weston 1998). In this type of literature, some studies analyze post-M&A integration challenges, such as organizational fit (Chatterjee, Lubatkin, Schweiger, & Weber, 1992), top employee turnover during the transition period (Walsh, 1989), and speed (Schweiger & Walsh, 1990). The difficulties and the significance of bringing different companies together in the post-M&A term are highlighted in all of these studies. Nonetheless, a "one-size-fits-all" integration approach may not lead to successful M&As, as prior studies may fail to address the complexity of the post-M&A integration (Schweizer, 2005). Even though some assertions that the question continues to be unsettled, target-firm shareholders might receive an advantage in the short term while acquiring-firm shareholders may suffer from overpayment (Lajoux & Weston, 1998; Jensen & Ruback ,1983).

Agrawal, Jaffe, & Mandelker (1992), through an exhaustive study that tested Ruback and Jensen's (1983) findings, firmly decided that well-organized market hypothesis, which points out that M&A strategy ought to be successful for shareholders, remains unresolved. Rather than gaining (see also Kohers & Kohers, 2001) it was found that within five years post-merger, acquiring-firm shareholders literally obtain about 90% of their market value.

Indicating that findings were on same line consistently with related research (Malatesta, 1983; Lev & Mandelker, 1972), another study (Langetieg, 1978) finds that post-merger effects of both the non-acquired companies and target/merged companies are similar through constraint group of non-acquired companies.

Due to incurring the costs of acquisition, problems of integrating the target firm, and servicing debt (Davidson, 1989; Ahuja & Katila, 2001), acquiring-firm shareholders and other stakeholders may benefit less or experience neutral returns (Ruback & Jensen, 1983). With such past research in mind, prior literature suggests that within the

M&A literature, there is still a great deal of confusion and conflicting evidence regarding the outcome of M&A integration and it seems reasonable that the present study concentrates on providing a road map to help the two cultures synergize, making the M&A process beneficial to both organization involved. It will be able to add insight into a shortage of prior M&A literature, providing specific roadmap of M&A strategy.

3. Solution- First Step

3.1. Common Goal Setting and Diagnosing

Virtually overhauling how a company operates in terms of improving effectiveness over all facets of business operations and at all levels in the business can be achieved through the means of organizational development. The first steep should be spent on preparing and meeting with the executive officers of the company A and company B to listen to their needs and collect information regarding the purpose of the mergers and acquisition. And then, next, step will be spent on visiting both companies on site to broadly collect information regarding their organizational structure, cultures, values, and employees. And then, keeping organizational development principles in mind, the next important step for the successful M&A integration is setting goals. Increased performance and productivity, enhanced employee morale and profitability are the common goals for organizational development.

In diagnosing step a thorough observation and study of both companies will be conducted. Total time to be spent during this step is four months. It will be spent 4 weeks to visit and collect on site data from company A and another four weeks to collect the same data from company B. The third month will be spent on analysis the data and reporting the feedback to the CEOs. The fourth month sill be spent to collect any missing or additional information identified after meeting with CEOs. The data and expectation to accomplish in this step include understanding the organizational structure and problems of both companies including their causes and consequences (Cummings & Worley, 2005). The methodology of the data collection will include in-person interview with key leaders or managers, employees, and customers. Company bibliography, history, human resources information, and financial information will also be collected as available.

3.2. Cultural Learning

Cultural learning is one of the most important elements of change management. A three-phase knowledge exchange process is encompassed in cultural learning. The three phases are as follows: 1) begin with an assessment of cultural variances, 2) set these variances in the context of collaboration, and 3) reconfigure the cultural systems to align them with business goals and objectives. Learning about reciprocal cultural systems and practices is what the first phase consists of. Assessment of the cultural compatibility in the organizations and the manner in which they can be integrated is one of the key strategies. Both Company A and Company B must participate in each other's cultures to acquire proper and comprehensive cultural awareness. Each company sending personnel to the other company for a two-month period is the recommended approach in this plan. The personnel will be able to assess the similarities and dissimilarities of the two organizations though experiencing the day-to-day practices in this time-frame (Shih & Allen, 2007).

Setting such variances in the context of collaboration is the second phase. Dialogue is one of the most effective strategies in this phase. A process that enables the participants to efficaciously start exploring the suppositions that lie behind their opinions and perceptions is called dialogue in delineation. Outlining their concerns, making clarifications of all worrying aspects, and making changes on the topics in disagreement will done my managers during this process (Galpin & Herndon, 2007). This will help to emphasize engaging individuals while ascertaining that issues are discussed and resolved by going through this process of forming a channel of communication. Not only will the probability of employee resistance to change decline, but any uncertainties or anxieties will be mitigated in this manner. For the alignment of the organization cultures with the business goals and objectives of both companies, reconfiguration is the final phase.

4. Solution- Second Step

4.1. Employee Involvement

The employees must be involved, particularly with organizational change, if change management is to be successful. Developing and overseeing an attitude assessment to all personnel to evaluate and appraise personnel perceptions of the merger and acquisition and also ascertain the workers who are experiencing a hard time in the cultural adjustment is one of the key methods (Schweiger & Ivancevich, 1985; Pikula, 1999). The management of Company A and Company B will be enable to develop implements to reduce stress and assist personnel in ensuring that the transition to the new organizational culture is smooth. Furthermore the departments or units facing challenges will become more apparent (Morgan & Zeffane, 2003). Very important are employee communication and engagement. A proper line of communication should be established as to avoid misperception and broken communication or to offer solutions to employee inquiries. Establishing a formal arrangement, task force, or individual delegated to address employee worries can accomplish this. Communication and airing of views and concerns should be allowed for all employees. Both Company A and Company B should provide satisfactory justification and answers to questions from all personnel and explaining to them the import of the merger and acquisition to the organization to help assuage uncertainty, disconcert, and panic the personnel may face. This will help to nurture a more positive work setting and dismiss deleterious sentiments (Pikula, 1999). It is imperative that employees that are ready for change should be nurtured by both companies. Personnel of the acquired organization will find this particularly advantageous. Not only can it aid personnel comprehend the logistics regarding any work restructure, but it will provide personnel with a further improved understanding of the organization's objectives, reporting methods, and culture.

4.2. Induction and Training

Both companies ought to undertake employee training following the resolving of worries and needs of employees and determining those who are ready for change. The new organizational principles, goals and objectives that are attributable to the merger and acquisition will enable personnel through this induction and training. The employees of Company A and B should be given training and education on various aspects, such as work performance, work strategies, and communication processes for the business operations. Moreover, training current personnel about practical changes that will come about from the merger and acquisition will be vital for both companies. For example, any finance department personnel may have to be trained on any new financial reporting practices, encompassing financial consolidation, and reporting the financial performance of subsidiaries that are formed because of the merger and acquisition (Cummings & Worley, 2014).

4.3. Employee Development

One way to manage Company A and put it more in line with the expectations and mindset of Company B are leave banks. Employee development is the next step. Both at the employee and executive level, development plans are enacted. Improvement in decision-making, communication, as well as change management could all be goals in terms of executive development. A wide range of activities could be covered under employee development goals. However, given the sales and service driven nature of the two companies, communication skills, technical proficiency development, creativity, and problem solving would be the key areas for improvement. To improve productivity, communication, and other key markers, Company A's employees can receive training from Company B. According to research, the employee feels a greater sense of connection which Company A has through its family-oriented structure when companies invest in their workers and make them a part of development changes. "The employee also feels greater connection and commitment to the organization which has invested in their development and made clear how this development assists in the attainment and maintenance of competitive advantage within the wider marketplace" (Hughes & Gosney, 2016). The decision to let Company B acquire them comes from Company A's desire to move to the next level. To help bridge the difference of standards while also creating a connection, Company B can share the ways they became successful and provide training opportunities for Company an employees. This can happen at both the executive and employee level.

5. Solution- Final Step

5.1. Restructuring

Restructuring is the final step. Company B operates in a very different manner from Company A. Company A's performance, if continued, could become financial baggage for Company B. Thus, changes in employee reporting structures like what is done in Company B can be implemented in Company A. This can include the moving of employees from areas where they may be struggling and place them in other areas better suited for their skill sets and forming new work teams based on skills and experience. This allows a change in business processes that keeps ownership and control out and changes in practice feasible and is called reengineering. "Reengineering is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvement in critical, contemporary measures of performance, such as cost, quality, service, and speed. Reengineering refers to the radical redesign of business processes not ownership and control" (Godbole, 2013, p. 6). Change management is the last aspect of organizational develop in terms of ownership and control. Management must receive organizational development training that includes change management training. It is important to let Company A adjust to changes in a way that promotes least resistance because it has family members in its management. Company B will be able to offset any stresses experienced from Company A and provide an environment that is suited to productivity by providing additional training and avenues of communication.

Further cash-rich Company B can transfer some of its resources for training for Company A that will allow growth and development in potentially weak areas as a means of lessening stress. Full disclosure of financial statements from both companies and actions falling under the matching principle should lend to providing clarity on the importance of the changes needed in Company A despite changes that can create problems under accounting principles. An understanding of what is required to accomplish objectives and why it is needed can be created by demonstrating that expenses must match revenue. At least with the management from Company B, this means changing the way Company A discloses pay structure.

6. Review and Conclusion

Although the history of business mergers and acquisition does not seem to show a substantial number of success and easy path to meet the business expectation, an acquisition like one of the TATA motor of Indian national company on the Jaguar and Lands Over of British national company in 2008 is a good example of an acquisition success of two companies from two completely different organizational cultures.

In the case of company A and company B, a similar expectation exists within their mergers. Nevertheless, there is a need of balance between scarification and benefits from both companies. To live up to the new business era, company A needs to adapt it self to changes and scarify some leadership leisure. Company B, on the other hand, whose organizational culture and management structures seem to be up to par, also needs to allow some room for company A to fit into.

Therefore, Once these strategies and approaches have been implemented, follow-up actions are essential. It will be critical to assess the expected outcomes against the actual outcomes once company A and company B have integrated their cultures and there is a need to acknowledge what could have been undertaken in a dissimilar manner and learn lessons following the assessment. Taking into consideration the recommendations and suggestions granted, revisions can be made as a result. Discussing and trying to come to an agreement over which mode of acculturation would be most suitable in that particular state is the main focus. Managers of both Company A and Company B might find it much simpler to continue their focus and dynamism in the process of cultural integration by following the plan discussed above.

The organizational culture ought to strengthen the strategy and structural design of the organization. The desires to be effective within its setting are emphasized by the culture, in particular. As it is considered that culture is part of function and function in turn, is part of culture, there is an interaction between the organizational functions and the organizational culture (Hatch, 1993). Long-term components of the business world have come to include organizational change management in addition to transformation. Significance towards producing change in cultural settings is carried in the practicality of business principles and practices (Ajmal et al., 2012). In conclusion, to attain success, coordination of their leadership development and change management endeavors are essential for Company A and Company B in the year leading up to their M&A. The figure 2 shows completed summary diagram which was developed by present authors and we believe that our approach adds an insight in the M&A literature and no existing research has approached it to synergize two different cultures. Lastly, managers at all levels of both organizations must take part in the process of merger and acquisition for both organizational cultures to come in sync and for change to take place (Quinn & Quinn, 2016).

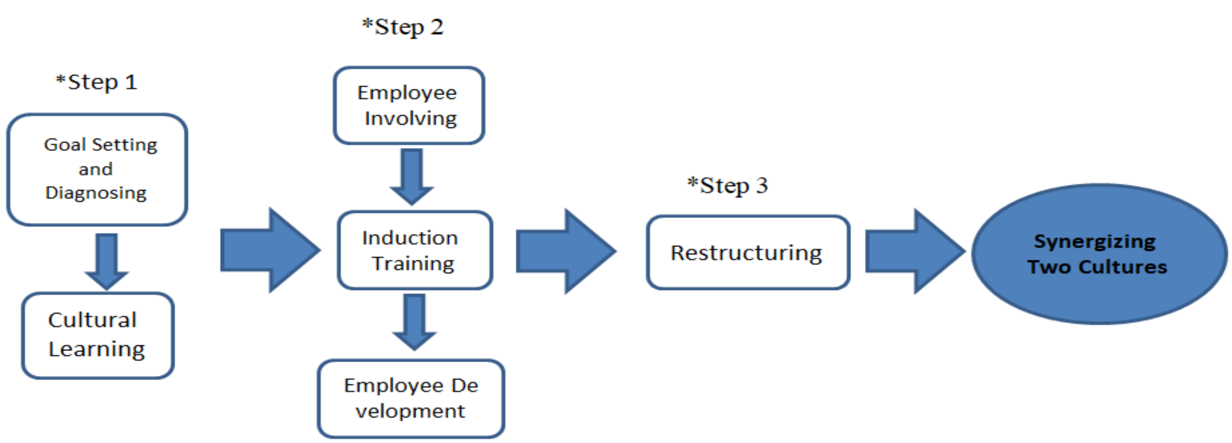

Figure 2 : Summary diagram to synergize two different cultures.

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