Chapter Three

CONCEPTUAL FRAMEWORK

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CONCEPTUAL FRAMEWORK

In this chapter we try to conjecture that why despite standardized combination processes being suggested, integration is dissimilar across mergers and acquisitions. Consequently, we develop a conceptual framework that summarizes the interrelationships being researched and draws the scope of the study.

3.1 Why is Integration Process Not Similar Across Mergers and Acquisitions?

Despite global agreement, on the importance of organizational fit and post merger integration in determining the success or failure of merger, that exists in merger and acquisition research why do organizations deal with integration processes differently? Why all organizations do not give equal importance to the key success factors of cultural fit, human capital related integration, structuring and staffing, communication, employee retention and compensation alignment? Are there any factors that motivate or prevent organizations from stressing upon or giving due importance to these so identified critical success factors in mergers or acquisitions? Though no research has categorically tried to identify these factors, indication about their presence is reflected in various studies.

Buono and Bowditch, (1999) for instance say that merger types, to a large extent, determine the degree of integration required. Horizontal merger warrants complete integration to realize maximum synergies. Further, managers of the acquiring organization possess knowledge of acquired organization’s business, thus possessing industry specific capabilities which gives them confidence to introduce greater changes. In case of conglomerate merger, the motive is financial diversification of risk. This neither requires total integration of operations nor do managers of acquirer posses the know-how of running the acquired organization’s business. An AT Kearney report authored by Rothenbuecher (2008) classifies mergers into seven types- volume extension, regional extension, product extension, competency extension, forward extension, backward extension and business extension and suggests different integration approaches for each of them. For example attention to cultural difference should be highest in regional extension and can be least in case of forward or backward integration, and professional integration management is
necessary in case of volume and regional extension as compared to cases of competency and business extension. Lind and Stevens (2004) say that integration strategy and leadership style will vary as per type of merger. They also classified mergers into four types based upon 1. Disparity or the degree to which businesses are different or similar and 2. Goodwill (including social and intellectual capital) across such parameters as products, channels, culture, customer relationships and intellectual property. The four types arrived at were merge and grow (low goodwill & low disparity), plan and prosper (high goodwill & low disparity), stand and hold (high goodwill & high disparity) and segment and sell (low goodwill and high disparity).

Culture of the organization determines the extent of change introduced in the combined entity. A multicultural acquirer allows the culture of the acquired organization to exist along with its own, whereas, an acquirer with less tolerance for multiculturalism prefers assimilation which is defined as a unilateral process in which one group (acquired) adopts the identity and culture of another (acquirer). According to Nahavandi and Malekzadeh, 1988, after merger/ acquisition, due to interaction amongst employees there is bound to be diffusion of cultural characteristics from one culture to another. This phenomenon is called acculturation. Berry (1980, as cited in Nahavandi and Malekzadeh, 1989:) defines it as, ‘changes induced in two cultural systems as a result of the diffusion of cultural elements in both the directions’. The degree of integration, may also vary depending upon the mode of acculturation. Berry (1983, as cited in Nahavandi and Malekzadeh, 1989) identified four modes of acculturation: integration, assimilation, separation and deculturation. The acquired and acquiring company will base the choice of the mode of acculturation on different sets of factors. The acquired firm will make the choice of acculturation based on two factors: Perception of the attractiveness of the acquirer and value of the acquired’s culture as valued by its own members. Factors determining the choice of course of acculturation by the acquirer firm are: Degree of multiculturalism or the degree to which an organization values organizational cultural diversity and is willing to tolerate and encourage it, and degree of relatedness of the firm.

**Integration**: leads to structural assimilation of two organizations but little cultural and behavioral assimilation. It involves interaction and adaptation between two cultures and requires mutual contributions by both groups. Integration will be a preferred
strategy for the acquired firm if the members wish to not only preserve their culture but also adopt the positive features of the acquirer’s culture. Integration will be attractive for the acquirer if the relatedness between the firms is high and the acquirer is multicultural.

**Assimilation:** A unilateral process in which one group (acquired) willingly adopts the identity and culture of another (acquirer). Members of the acquired firm will prefer assimilation when the acquired firm has been unsuccessful and the employees feel that the organization culture has been dysfunctional for organizational performance. For the acquiring firm assimilation is the most preferred mode when the merger is related and the managers of the acquiring firm have enough expertise in running of the business of the acquired firm. In this case structural, cultural and behavioural assimilation will occur.

**Separation:** refers to the attempt by employees of the acquired to preserve their own culture and policies by remaining separate from the acquiring firm. The members resist any effort towards adaptation and wish to preserve their own cultural and structural systems in which they show great faith. From the acquirer’s point of view separation is a preferred mode when the merger is between unrelated firms and the acquirer is multicultural. Skills and knowledge of the acquiring firm’s managers are crucial to the running of the business taken-over. Separation results in minimal cultural exchange between the two groups where each of them functions as a separate entity.

**Deculturation:** involves loss of cultural and psychological contact both with one’s group and the other group. In this case culture of the acquired firm is weak and the members therefore renounce it. They are also unwilling to adopt the culture of acquirer and thus disintegration of acquired firm as a cultural entity takes place. From the acquirer’s point of view this is a result of mismanaged unrelated merger, where despite the unrelatedness, because of the unicultural nature of the acquirer it interferes in day-to-day operations of the acquired.
The model of modes of acculturation suggests that for successful cultural integration both organizations need not have the same culture. It is, however vital that both, the acquired and acquiring organizations agree upon the mode of acculturation. If both the organizations share the same vision and perception on type and mode of acculturation, despite difference in their cultures, integration will not be hampered.

Leaders of both the organizations especially acquiring, are also known to influence the integration process. According to Kavanagh and Ashkanasy (2006) leaders play a critical role in selecting and planning appropriate change. Their involvement also shapes the perception of both acquiring and acquired organizations’ employees towards each other and the integration process. Similar findings were arrived at by Camara and Renjen (2004) who while describing the HP-Compaq merger say that
senior management commitment was critical to rapid integration and involvement of CEOs of both the companies and functional heads facilitated the combination process. Relative standing of two organizations vis-à-vis each other might also have an impact on the integration approach. In a study conducted by Dackert et al (2003) it was found that employees attributed importance to the relative size of both the organizations as the bigger of the two was likely to emerge as a dominant partner in deciding on the composition of managerial groups, departments and work teams.

Having discussed, earlier work by various authors in the field of mergers and acquisitions, in the next section we draw a conceptual map which will give a comparatively vivid direction to our study.

3.2 Conceptual Framework

As the three factors—relative standing of merging organizations, type/rationale for merger, cultures of combining organizations, along with others above influence the integration strategy and approach (as witnessed in section 2.8), they are also likely to have an impact on the HR integration process that forms a component of overall integration.

By relative standing, we mean how the organizations had been performing vis a vis each other over a period of three to four years. Parameters considered for performance are generally related to indicators considered even for valuation like profitability, turnover ratios, book value and market price of the share. Another parameter considered is the relative size of the two organizations in terms of their turnover, reach (distribution network) and number of employees.

Type of merger answers the question whether the acquisition is horizontal, vertical, concentric or conglomerate in nature. Rationale for merger can also be derived from the type of merger; it tells whether the merger was undertaken for growth in market share, increasing geographic strength, expansion of product portfolio or any other reason.

The above two determinants are also likely to define the bargaining strength of the two players (acquirer and acquired). If the acquired is of relatively the same size and performance, and is expected to add substantial value to the acquiring organization,
the terms of merger and integration may get tilted in its favour. Unlike the above two, *culture and leadership* of the two organizations may not have an impact on the power equation but it will to a large extent define the level of compatibility and nature of integration required.

**Integration strategy** begins with a merger and acquisition plan and encompasses major decisions regarding when and how merger or acquisition would be announced, new organization structure, detailed planning of combination of different functional areas, cost controls, and interface with external and internal stakeholders. Major aim of the integration strategy and its components is to realize the strategic and financial goals of the merger or acquisition in question. The integration strategy may vary in scope and depth depending upon various determining factors.

Critical elements of *HR integration process* are timing of interventions and involvement of the human resource department. The phase of acquisition or merger at which HR department gets involved indicates the importance attributed to this function by the leaders/senior management. Timely involvement of HR department also provides them (HR executives) with an opportunity to assess HR and culture related issues and plan the integration process accordingly.

**HR integration process**, which will be a component of overall integration and is driven by a composite integration strategy, is divided into two parts on the basis of nature of interventions made. First sub-process comprises of handling of softer issues like training, communication and cultural integration. Employees may be trained for handling new products/customers, using new technology and helping them to cope with new culture and acquisition/merger related changes. Communication helps in removing integration related ambiguities- organizational, positional, and personal. It needs to be timely as its absence can generate detrimental unofficial grapevine. Information needs of employees may vary with various stages of merger/acquisition and integration processes. Information coming from a respected and trusted resource has a higher impact, thus, the involvement of senior people may be warranted. Cultural integration assumes importance as seldom is the culture of two separate organizations similar. To complicate matters, it is especially during times of transformational changes like these that strength of one’s culture and the affinity that
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Figure 3.3
Conceptual Map

Relative Standing of Two Organizations vis-à-vis each other in Terms of
- Performance
- Size

Type of Merger/ Rationale for Merger

Cultures of Acquiring (and acquired) Organizations and Leadership

Other Determinants

Integration Strategy and its Level

Strategy and Process of Integration of Human Resources
- Timing
- Interventions

Through Management of Soft Issues
- Cultural Integration
- Communication
- Facilitation of Learning/Training

Through Integration of HR Policies and Practices
- Integration of Structure and Staffing
- Compensation
- Employee Relations

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employees share with it comes to the fore; thus, for cultural integration or change to happen employees should recognize and appreciate the necessity of the same. Various interventions like communication may be needed to facilitate the process of cultural change.

The first sub-process helps employees as human beings to adjust and perform in the new organization. It helps in taking care of their social and self actualization needs. The second HR integration sub-process on the other hand looks at more objective and material aspects of HR integration and comprises of efforts made for combination of HR policies and practices like allocation of roles and positions, compensation and employee welfare schemes, performance systems, employee relations- union issues if any and settlements, and any other explicit or implicit contract that the employees value and expect the new management to respect and implement. These issues can impede or enable an integration exercise.

After analysing various studies that exist in the area of ‘HR and mergers and acquisitions’ and creating a conceptual framework to guide us, we are well equipped to discuss the rationale for our study, its research objectives and the methodology used in the following chapter.