CHAPTER 6

A BEHAVIOURAL PERSPECTIVE

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Will I have a job? Will I be transferred? Will I be demoted? What will happen to my benefits? These are just a few of the questions that are on the minds of those individuals involved in mergers and acquisitions (M&As). With the increasing number and size of the deals being consummated, very few people are immune from the potential havoc that mergers can have on their lives. These powerful corporate events have the potential to create severe trauma and stress which can result in negative outcomes for both the individuals and companies involved.

To date, there has been little attention given to the impact of mergers on human resource factors by those executives and high-level administrators involved in transacting mergers. Preoccupied with the financial and legal aspects of mergers, top executives, investment bankers, and lawyers rarely consider the impact that these events have on the lifeblood of the organization the employees (Jemison & Sitkin, 1986a,b). It is becoming more evident, however, to those involved in mergers that greater attention needs to be given and proactive managerial action needs to be taken to minimize the potential human resource problems associated with them.

Through understanding and planning for the stressful events that mergers can initiate, executives and human resource professionals can turn what is emerging as a "lose-lose" situation into a "win-win" situation. Awareness of merger stimuli that cause stress and when they occur in the merger process, who in organizations are most susceptible to stress, and the interventions available for dealing with these individuals and stimuli will facilitate the planning and execution of mergers.

In this chapter, diagnostic frameworks have been presented for (1) understanding what is designated the merger stress process; (2) differentiating between the stages of the merger process and the sources of stress that they create; and (3) choosing guidelines and interventions to encourage more effective management of merger stress. These frameworks provide the basis for proactive managerial and human resource planning and implementation that should help mitigate the negative human resource side effects that mergers often bring.
6.1 MERGER STRESS PROCESS

When companies merge, employees in the new organizational jungle may be touched by three unsettling realities. The first is that a major event has occurred over which they may have little control. Second, there is uncertainty about their futures. Third, they may be faced with changes in jobs, work relationships, and family relationships (Levinson, 1970; Gill & Foulde, 1978; Sinetar, 1981; Schweiger & Ivancevich, 1985; Marks & Mirvis, 1985).

Will these realities be stressful to employees? This is not a simple question to answer. Merger stress is a complicated process that is triggered by two major factors, the nature of the merger events taking place and the characteristics of the individuals involved. As illustrated in Figure - 6.1, these two factors lead to a cognitive appraisal of the merger situation, which results in a stress response. Depending on the intensity and duration of this response, a variety of outcomes might occur. A starting point for our discussion of the merger stress process is to clarify what is called the personal cognitive appraisal.

FIGURE - 6.1
Merger Stress Process

6.2 APPRAISING MERGERS AND ACQUISITIONS.

"Men are disturbed not by things, but by the views which they take of things." This statement, made by the Roman philosopher Epictetus two thousand years ago, provides us with insights on how employees respond to merger events. Simply put, mergers do not produce the same responses, types and levels of stress for all individuals. How mergers are cognitively appraised and interpreted and the implications attached to them are prime determinants of the stress response. For some, a merger will be viewed as a threat to happiness and well being. For others, it will be viewed as an opportunity to improve an existing situation that is considered intolerable or disorganized.

Lazarus and Folkman (1985) have identified three kinds of appraisals that people make of an event they encounter that can help sharpen thinking of the stress response. They are referred to as: 1) irrelevant, 2) benign-positive, and 3) stressful. If a merger is perceived as having no effect, it is considered irrelevant. A secretary in a newly merged company stated: "It really doesn't matter who is in charge. I still have to file, type, and answer telephones. As long as I'm paid on Friday, Flash Gordon could be in charge and it wouldn't matter."

A benign-positive appraisal is one in which a merger is viewed as an opportunity to preserve or enhance one's self-esteem, stature, or position within a company. Essentially, it is characterized by pleasurable and comfortable emotions and feelings. As one employee of a merged company stated, "I know my job and I know I'm needed. It really doesn't matter who's steering the ship. The ship can't get back to port without me, my knowledge and skills."

The stressful appraisal, which has the potential for high individual and organizational costs, can be subdivided into three categories: 1) harm/loss, 2) threat, and 3) challenge. A harm/loss appraisal indicates that there has been some damage to a person such as loss of self-esteem or a sense of powerlessness. As an employee working for an acquired company stated, "After seventeen years of working hard, trying to work toward the top. I'm just not going to make it. This (the merger) changes my whole life."
"Boy, I don't know if I am going to have a job and feed my family or what I am going to do if this merger goes through." This statement, made by a manager in a company being considered for takeover, exemplifies what is called a threat appraisal. Threat concerns perceptions of harm or loss that have not yet occurred but are anticipated.

The third stress appraisal, challenge, differs from threat in that the appraisal focuses on the potential for gain or growth. Challenged people have advantages over threatened people in terms of morale, productivity, and health. A challenge appraisal is best reflected in the following comment by a clerk in an insurance company considering a merger. "I just can't worry about this merger. I will find something to do if it happens. I'm a survivor.'

Why the same merger rumors, facts, and activities would be perceived as a threat by one person and an opportunity by another is complex to understand. However, if we consider the individual as a stakeholder in an organization, this issue becomes more clear (O'Toole, 19858). Work and the careers associated with it are integral parts of most people's lives and help them attain those things that they value. Mergers are powerful events that have the potential to change these relationships. Consider, for example, the brief list of changes presented below that a merger can initiate. While reading the list, one can ask: "How important are they in my life?"

1. loss of job
2. changes in job-new roles and assignments
3. transfers to new jobs and/or geographical locations
4. changes in salaries and compensation packages (e.g., savings plan, pensions. Medical coverage, etc.)
5. changes in perks
6. changes in career paths
7. changes in organizational power, status, and prestige
8. changes in colleagues, bosses, and employees
9. change in corporate culture and loss of identity with the company
Certainly we can add to this list, but the point is sufficiently made of nine potential changes. With these changes and the changes they initiate, a merger can threaten people's ability to attain and protect those things that they value in life. It is also to be considered how merger stress can spill over into life outside work and its effects on marriages and friendships. Many of us, at some point in our lives, have certainly seen the effects that financial pressures can have on family relationships. The picture, however, is not all gloomy. Not all mergers threaten the outcomes and values that work provides; in some cases, such as better benefits of career opportunities, mergers might enhance value attainment. However, until the initial shock is over and the dust begins to settle, seeing personal benefits from mergers is as difficult as finding the proverbial needle in the haystack.

To the extent that the events created by a merger are anticipated or actually do challenge or change the relationship between work and value attainment, a response will result. If the changes are perceived to threaten or diminish the ability of an individual to continue to attain those things that are valued, stress levels will increase (i.e., harm/threat). If merger events are perceived to enhance value attainment, there will be low levels of stress (i.e., benign/positive). Where there is no perceived effect on value attainment, there will be no response (i.e., irrelevant).

6.3 STRESS RESPONSE: THE HUMAN REACTION

Three factors created by merger events, uncertainty, imminence, and duration, are instrumental in influencing the intensity of a stressful appraisal and its ensuing effect on a person's response.

Uncertainty

Not knowing whether an event will occur or what its consequences will be can be very influential in cognitive appraisal. In the absence of actual information concerning a merger, an individual's appraisal will be determined primarily by his/her speculations about events that might occur and rumors associated with them. Often these rumors and ensuing speculations result in stressful appraisals. One employee in a merged company stated, "The rumor mill started eight months before the deal was finalized. The rumors
were contradictory, but they were not denied by management so they really lowered employee trust and commitment." Since the perceived events and consequences were deemed to be an important part of employees' lives, stress levels intensified during the eight-month period of uncertainty.

**Duration**

Duration refers to how long stressful merger events persist. The biomedical stress literature and research suggest that chronic stressors wear a person's immune system down and make the individual more susceptible to disease (Ader, 1981\(^9\); Kiecolt-Glaser, Glaser, Strain, Stout, Tarr, Holliday, & Speicher, 1986\(^10\); Milsum, 1984\(^11\)). Researchers have provided evidence of the importance of duration of stressors: the longer a person stays in a state of uncertainty and high stress, the greater the probability of becoming susceptible to health, family, and personal problems.

**Imminence**

Imminence refers to the amount of time before the actual merger events occur. It is the interval of time during which the ensuing events are anticipated. Generally, the more imminent the events, the more intense the appraisal becomes, especially if there is evidence or speculation signaling threat, harm, or the opportunity for gain. Without these, imminence is not likely to affect the cognitive appraisal. Increased periods of time before the actual merger events occur can bring greater complexity to the appraisal process. Given time and uncertainty, individuals can reflect, suffer, or grieve; they can also avoid the event, think about it, take action, or make efforts to gain self-control.

As Figure - 6.1 illustrates, after there is a stress response an outcome occurs, a consequence of the response. Three different types of consequence may follow:

- a lost life outcome
- a depressed outcome
- a physical outcome

These are just three possible merger stress outcomes. Will the outcomes be the same for everyone? Obviously not. Will they be as severe as suicide? Hopefully not!
How merger stress manifests itself is complex. The severity of the outcomes for both individuals and organizations is determined by the nature of the cognitive appraisal and the intensity of the stress response.

Stress can manifest itself through physical problems. It is not uncommon for individuals under high stress to experience elevated blood pressure, migraine headaches, muscle aches, trembling, and insomnia (Lazarus & Folkman, 1985; Syme, 1984). Should we be concerned about these? That all depends. If they are experienced for a short duration, maybe they will result in slight discomfort. If the stressful events persist, as is the case with most mergers, they might lead to severe health problems for an individual.

Prolonged stress can have severe psychological effects as well. Depression, anxiety, anger, a loss of self-esteem, lower job, career, and life satisfaction, and preoccupation are common stress responses (Schweiger & Ivancevich, 1985). As these become more severe and common, the ability of an individual to function can become severely impaired.

Both the physical and psychological outcomes are invariably linked to behavioral or organizational consequences (Schweiger & Ivancevich, 1985). Health problems have obvious effects on absenteeism and performance. Psychological problems can behaviorally manifest themselves in a number of ways: depression and anxiety may make it impossible for an individual to face the job; withdrawal through absenteeism, tardiness, or resignation might be common; suicide, unfortunately might be the ultimate form of withdrawal. Preoccupation on the job manifested in daydreaming and wandering around the work area talking to co-workers are also common outcomes. In some severe cases, anger and resentment toward a company might result in hostility, which can show up in a covert activity such as sabotaging work performance. Numerous instances have been reported where employees, concerned about possible job loss from a merger, removed or sabotaged personal work files that were essential to the company. The response of one employee was, "If they're going to screw me after ten years, I'll screw them."

In terms of organizational effectiveness and productivity, it is difficult to attach a precise dollar value to the losses from merger stress (Matteson & Ivancevich, 1982).
There are obvious losses in terms of tardiness, absenteeism, turnover, output, and destructive behavior. There are also more subtle costs with respect to morale, loyalty, trust, and commitment from employees who "survive" the merger. These outcomes may have tremendous costs in terms of future productivity, turnover of valued personnel, and achieving the goals of the "new" organization.

People who have been involved in mergers continue to relate that each merger has its own character with a different set of events and stressors. Every merger is like a new scenario of events, responses, and outcomes. Therefore, it is important to be able to examine mergers by using some type of diagnostic framework that brings some degree of order to the complexities involved. To understand and diagnose merger events and their ensuing stressors, it is necessary to briefly examine the sequence of stages in which mergers unfold. Each stage has the capacity for initiating different types of cognitive appraisals, responses, and consequences.

### 6.4 STAGES OF MERGER PROCESS AND THE RESULTING STRESS

Mergers generally unfold in a sequence of stages. This unfolding is like the peeling away of the skin of an onion. Each layer is a lot like the previous layer, but there are some distinct differences. Figure - 6.2 shows five stages that will be encountered by companies involved and type of merger being transacted.

**FIGURE - 6.2**

Typical Stages of the Merger Process

<table>
<thead>
<tr>
<th>M&amp;A SITUATIONS</th>
<th>Decision to Sell or Merge</th>
<th>Sale or Merger Closed</th>
<th>Receipt of Offer</th>
<th>PLANNING PERIOD</th>
<th>&quot;IN PLAY&quot; PERIOD</th>
<th>STANDSTILL/TRANSITION PERIOD</th>
<th>STABILIZATION PERIOD</th>
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Planning Stage

The first stage considered is the planning period, which consists of the examination of a possible merger, acquisition or divestiture. The target may be an entire company or selected subsidiaries or divisions. Although planning is usually attempted in secrecy, frequently rumors occur, some accurate and some inaccurate, arising from either internal leaks by those involved in the planning process or externally from the financial marketplace. If the "rumor mongers" happen to be a "bunch of hysterics," it won't be long before everybody in the company is worried. It does not take much during this period of great uncertainty to trigger people's perceptions and stressful appraisals. Obviously, not everyone will overreact but enough will to create stress for many. One manager, after hearing rumors, stated, "I really can't control everything I hear. The best thing for me is to do my job and keep a positive attitude."

Generally, most planning stage rumors will focus on whether a company is considering a merger and/or is being pursued by another company. As time passes, if events unfold and management does not publicize what is going on, rumors may escalate to naming particular divisions and departments to be affected, possible organizational restructuring, and layoffs. Certainly the possibility of job loss is a key stressor for almost everyone in the planning stage. Job loss in mergers is highly publicized and is likely to be a concern for most employees.

In-Play Stage

The best way to characterize the in-play stage is that it is the point at which a company has been formally approached by or has approached one or several potential partner(s). As the approach to the merger or acquisition (e.g., planned divestiture, merger, etc.) and the companies and individuals involved become clearer, the nature of the rumors are likely to change from those of the planning state. More speculation on possible detailed organizational changes will surface. More often than not, a hostile takeover scenario will create the most stress. The nature of this approach is such that events leading to the takeover are built upon opposition with significant sparring among the players. Stressful appraisals about job security, especially among top executives, are
quite common and understandable. Rarely do managers and employees ever see anything good resulting from this approach.

Mergers and friendly acquisitions are most likely to be less stressful as a whole than hostile takeovers; however, to some, even these approaches are quite stressful. Of importance again will be the rumors and appraisals that arise. Rumors or actual statements made by a merger partner or an acquirer concerning intentions for a target company and its implications for managers and employees can be very powerful in shaping appraisal. Perceived intentions such as "reduction of employment redundancies," "major reorganizations," "combining divisions," or "leaving an acquired company as is" could have profound effects. Perceptions by managers and employees concerning an acquirer's approach to merging or acquiring can be influential in shaping appraisal.

Planned divestitures are similar to mergers and friendly takeovers in that there is no hostile component. However, a major difference is that the deal is initiated by the management of the divesting firm, who usually has greater control over the terms of the sale. A key determinant of the rumors and ensuing appraisals here, however, will be perceptions of a selling executives' concern for the employees of the divested division and the extent to which they negotiate favorable terms for employees in the sale agreement. Again, to whom the division is sold and their intentions for the division will also be instrumental.

The planning and in-play stages thus characterize the pre-merger/acquisition phase. Whether a merger will occur and with whom creates uncertainty and as a merger approaches and becomes more imminent, the appraisals developed by employees concerning threats and opportunities will become more intense. If the appraisal is threatening, stress levels will intensify just prior to the merger.

Standstill and Transition Stages

The closing of a merger or the sale of a company marks the beginning of the standstill and transition stages. The standstill stage is one in which the merger has to clear regulatory hurdles. Here, the period of waiting and uncertainty continues. Although the acquirer or merger partner is now apparent, uncertainties among employees shift more specifically to the types of changes that will be made during the transition. As approvals
for the merger are given, many of the uncertainties of the previous stages will begin to be resolved—some immediately, others will take time. It is rare that companies are able to smoothly develop and adhere to transition plans (Quinn, 1980). A resolution might be that an employee finds that he/she has not lost his/her job but will be transferred to a location not yet determined.

**Stabilization Stage**

The final stage in the merger process is one in which the transition is complete and the companies are "smoothly" functioning or stabilized. The point at which transition ends and stabilization begins is blurred due to the uncertainty and unpredictability associated with bringing a new company into the fold. Unforeseen changes, such as further consolidations or the need to divest a portion of a company that was not considered in the transition stage may now emerge.

Stabilization will certainly not be stress free for managers and employees. One employee of a merged company stated two years after the merger occurred, "We still don't know where we stand around here. We feel like a neglected stepchild. There were a lot of promises, but New York (headquarters) really doesn't know what to do with us." Another employee in the same company claimed that, "from the very first day all I heard were promises, promises, promises. I finally know who is in charge around here, but I'm still waiting for the other shoe to drop. There is no more peace and quiet. Probably never will be either." These kinds of thoughts show that the so-called stabilization stage also produces stress.

Interventions by executives and human resource professionals are absolutely essential if employees are to make the adjustments needed before, during, and after a "corporate marriage" is consummated. Interventions by these individuals are similar to those that a surgeon plays with a patient. The surgeon that is open, honest, and supportive is more likely to have a patient who suffers minimal uncertainty, fear, and anxiety. The psychological well being of a patient can pay dividends in cutting short the recuperation experience after the surgery. The same is true in a merger situation in which a well-planned intervention strategy is adopted by management.
6.5 INTERVENTIONS FOR MANAGING MERGER STRESS

Currently there is no specific intervention or group of interventions that can completely eliminate merger-produced stress from employees' lives. After all, mergers invariably create changes that disrupt the routine. Furthermore, it is incorrect to assume that the management's of merging firms are able to, willing to, or should be totally responsible for employees. Managing stress is a joint responsibility of the company and the individual. To this end, specific interventions that companies, human resource professionals, and individuals can use to facilitate the coping process are required.

Figure - 6.3 presents a framework for choosing the most appropriate intervention points. Executives and human resource professionals in some cases will consider stress issues prior to a merger, whereas others may not address employee stress problems until well into the merger process. Therefore, three groups of interventions are identified that can be used at different points in the stress process: prevention, reappraisal, and stress management/professional help.

1. Prevention.

Prevention interventions attempt to reduce the occurrence of actual stress-inducing merger events. Prevention may be difficult to use, however, since the management of an acquired firm may have little control over these events. When control is possible, such as in the very early stages of a merger, and when the executives of the acquiring and acquired companies are agreeable, this group of interventions may be possible.

2. Reappraisal.

Reappraisal refers to changing an initial cognitive appraisal of a situation by employees once a merger is underway. With new and accurate information provided by management and the willingness of individuals to consider it, stress brought about by uncertainty and speculation can be effectively dealt with.

At the point where this type of intervention is needed, employees will already have responded to merger events and may show signs of being stressed. If their stress responses are prolonged and not attended, many of the stress outcomes previously discussed will result, including long-term health problems. For those not experiencing severe dysfunctions, stress reduction techniques are available. Where dysfunctions reach a level of intense anger, depression, or feelings of powerlessness, a professional should be consulted.

**FIGURE - 6.3**

*Intervention Points in the Merger Stress Process*


Prevention, reappraisal, and stress management/professional help interventions suited for each of the five stages of the merger process are presented above.
6.5.1 Company Interventions

As Figure - 6.2 illustrates, interventions can be implemented at any point from the planning stage to the stabilization stage. Although separated here for discussion, the interventions implemented in the early stages influence the choice and success of those in later stages.

Planning stage

Lack of accurate information concerning rumors and how a company's executives plan to deal with employees if the merger should occur can lead to inaccurate appraisals and high levels of stress. If threatening rumors linger, stress is likely to mount. Rumors should be dealt with. Reducing uncertainty will help set the stage for accurate appraisal and provide a realistic basis for effective coping (Schweiger et al., 1986; Graves, 1981; Sinetar, 1981)\(^6\).

This is an excellent time for a company (vis-a-vis the personnel/human resources department) to evaluate whether an effective communication system exists. (Ideally, this would be done prior to the planning period.) The best way to counter ill-founded rumors and prevent future ones is to provide accurate information. A communication system will facilitate top management leadership and support for employees during this crucial period and will continue to be useful throughout the ensuing stages of the merger process.

Three dimensions of a communication system should be considered:

1) what information to provide;
2) what media to use; and
3) how accurate the information should be. Deciding upon what information to provide is a difficult choice.

It is likely during this stage that top management itself knows very little about the situation. Although secrecy is important, release of information to both the press and employees might be in a company's best interest if rumors grow rapidly. In the face of a hostile takeover, the chain of events may occur rapidly with management knowing quite soon what is happening. In mergers and friendly acquisitions, events usually move more
slowly. To the extent possible, management should inform employees whether the company is a target for a merger or acquisition and, if it is, how top management plans to respond. Employee concerns, negotiating secrecy, and legal requirements need to be reconciled. Early information is useful in dispelling ill-founded rumors and in providing employees with additional time to develop individual strategies necessary to meet inevitable stresses. More will be said about this in our discussion of individual interventions.

The choice of communication media is also important. The use of formal letters from top management will help validate the communicated information and establish or reinforce employee confidence in the leadership of a firm. That top management is taking a role in demonstrating concern for employees may also aid in future commitment and retention of key employees. Memos to key managers and informational departmental meetings might help concerned individuals vent possible frustrations. It will also provide an opportunity for two-way communication during a period when it may be sorely needed. It is important, however, to avoid over-communication and excessive meetings that may disrupt workflow, and focus employees' attention on the merger rather than on their work.

In communicating, top management must provide accurate and reasonable information. It is essential to avoid lying, deceiving, making false promises, and providing inconsistent information. Moreover, it could be dangerous to project future direction beyond what is currently known. Providing information to facilitate accurate appraisal and planning on the part of employees is the key; deception and false promises usually come back to haunt executives.

In-Play Stage

The in-play stage can be characterized as one in which a merger or acquisition is likely and the "players" for the company more well defined. Although the merger events are taking shape, rumors and uncertainty are still prevalent in the company. Employee concerns shift from whether the organization is a candidate for merger, to whom will likely merge with the company and under what terms. Providing employees with specific
information about possible acquiring or merging companies, and management's plans for dealing with them, will continue to minimize the effects of rumors and facilitate top management leadership. Working toward improving employee confidence that the company is not falling apart is very important at this point. Employees with alternative job opportunities may view this period as a time to move on and avoid the stress, but these are often the people who are instrumental in the success of the company during and after the merger process. Again, memos, letters from top management, and departmental meetings are effective media for preparing employees.

During the initial stage of the in-play period, little information is available concerning which company in particular will acquire the firm. In the later stage, however, it will become clear who the acquirer might be. As the events reach the latter stage of the in-play period, the implications for employees, especially top management, begin to crystallize. The identity of the acquiring firm and what its intentions are will begin to clarify the implications for the organization and employees.

An additional concern is how the merger will be handled and the role that particular employees will play in the new company following the merger. As decisions are made, employees need to begin preparing for potential changes, especially if it might result in job loss. Communication will provide employees with at least some time to prepare. It is difficult at this point to specify exactly how an upcoming merger will directly affect a company. In many cases this will not be known until after the deal has been consummated and the change in ownership of the company has taken place. Although information concerning the merger partner's intentions might not be clearly articulated, information regarding the acquiring company's treatment of employees in prior acquisitions, if available, may be useful.

In addition to communicating, top management, in conjunction with the personnel/human resources department, may minimize the number of stressful events that occur by preparing employee protection plans for inclusion in a possible merger agreement. In the case of a hostile takeover, there is little management can do. With mergers, friendly acquisitions, and especially planned divestitures, such plans are feasible. Of importance here, however, is the extent to which top management cares! If
top managers are likely to lose their jobs, they may be too preoccupied with managing their own personal careers to focus on other employees.

Employee protection clauses should include: employment contracts, benefits, thrift plans, severance pay, retirement plans, and job transfer and moving provisions. If at all possible, all employees should be informed that management is attempting to protect them contractually. This will be an important stress reducer. Although it will not eliminate fears of job loss and change, it will provide employees with important information and assurances with respect to a worst-case scenario. Being informed about the types and lengths of severance pay and benefits available will help individuals prepare for and plan their lives after the possible merger.

The in-play stage is also an excellent time for human resource professionals to make available to employees merger stress management training, individual counseling, and other professional help where needed, and to survey and interview employees to assess the extent of stress and stress-related problems (Schweiger & Ivancevich, 1985). Many employees will begin experiencing severe stress and dysfunction, especially if this stage drags on. These interventions will help employees remain productive during this chaotic time and reinforce top management's loyalty to them. Depending upon the nature of the merger or acquisition, this training might serve the company well right through the transition period. Even if the merger or acquisition never comes about, interventions provided will continue to aid the organization in dealing with future organizational changes in general, and at a relatively low cost.

**Standstill and Transition Stages**

During the final stages of a merger, employee's appraisals continue to intensify. Concerns about job loss and other changes become more intense. Many organizational changes could occur during this period, depending upon how the company is to be handled (e.g., as a wholly-owned subsidiary, separate division integrated with existing operations, or liquidated). In large "mega-mergers," effects may vary across organizations where some units are handled differently than others. Thus, the implications for employees will vary.
A potentially valuable intervention during the transition period is the creation of a team to plan the transition to a new firm. This team should be constructed just prior to the signing of a merger agreement so that there is sufficient time to take full stock of the new organization. This allows time to negotiate the terms of a merger agreement with respect to organizational and employee issues.

The choice of an intervention should be based on a sound plan which includes the organizational objectives underlying the merger and how the merged or acquired firm will be handled (Handy, 1969; Leighton & Tod, 1969; Davis, 1968; Searby, 1969). An informed and motivated team that has a plan could be invaluable in preventing unnecessary sources of stress. The team should be composed of influential executives and managers from both the acquiring and acquired firms. This will insure full representation of key stakeholders in the transition. The probability that top management of the acquired firm will be retained after the deal is consummated will determine whether their participation will be likely. In some cases, where concern for employees and maintenance of the organization is pivotal, they may serve in a lame duck role until the transition is completed.

A merger transition team is most likely to occur when the merger or acquisition negotiations are relatively friendly. Under hostile conditions, the relations between the executives of both companies are likely to be less than cooperative. A variety of techniques is available for managing the intervention teams. Team building and intergroup conflict resolution techniques, developed in the field of organization development, are just a few.

Once the team is functioning, a number of essential decisions and interventions will be required. To reduce employee stress and maintain the integrity of the organization, known changes should be made swiftly and fairly and communicated to affected employees throughout the organization.

As soon as a deal is closed, it is essential that the CEO of the acquiring company send letters to the employees providing as much accurate information as possible about the merger and its impact on them. It is essential to avoid having employees get their information about the merger from newspapers or other external sources. Again,
uncertainty will remain a key source of stress. Initially, information to consider include (Barrett, 1973)\(^2\). 

1. Reasons for the merger or acquisition and what the company (and employees) will gain or lose from it.

2. General facts about the acquiring or merging company.

3. Changes in the company name.

4. Changes that will be made in the organization structure and management.

5. Plans for decreasing total number of employees.

6. Plans for emphasizing or de-emphasizing products the acquired company is making.

7. Detailed changes in benefits and compensation (Salary structure, insurance, retirement, profit sharing, sick leave, etc.).

As the merger transition team develops the transition plan, additional information concerning specific job loss and changes should be communicated. This includes:

8. Layoffs and provisions for job loss (severance pay, outplacement services).

9. Job and role changes.

10. Changes in management and reporting relationships.

11. Changes in job titles and descriptions and job benefits (expense accounts, company car, office size and location).

12. Changes in career paths (both positive and negative).

13. General changes in company policies.

In the development and implementation of a communication plan, the image and intentions of the acquirer as perceived by employees is very critical to their stress responses. If employees view the acquiring company as having low regard for the employees of the acquired firm, the integrity of the organization may suffer greatly. An honest, empathetic communication plan greatly enhances the image of the acquiring
company. Although several changes, including job loss, will not be popular, they may be more palatable for those who stay if conducted in a reasonable manner and with consideration of employees' feelings (Schweiger et al., 1986).

The communication plan should be tailored to the nature of the changes required. If few changes are necessary, as is likely in the case of a wholly owned subsidiary or separate division, this should be made clear. If new career paths will open up in the merged company, communicate this. Information, both positive and negative, is needed by employees in order to plan during the transition stage.

The intervention chosen to implement organizational changes will affect employee stress. The first issue of concern to employees will be whether they have a job. If job loss is likely, further organizational changes will be of less concern to them. However, job loss and how it is handled will affect not only the terminated employee but others who stay in the organization. How employees are terminated and treated indicates what might lay in store for them at some future point, especially if terminations may become necessary as the transition evolves (Schweiger et al., 1986). Not all mergers, however, result in job loss. Hostile takeovers with liquidation in mind, where people are not of great concern, will yield the worst job loss consequences. Planned divestitures and friendly acquisitions, where a wholly owned subsidiary are separate division is likely, usually result in little job loss. Integrations usually yield selective job loss, primarily in areas where redundancies are high or in areas which are eliminated entirely (Schweiger & Ivancevich, 1985).

In choosing a layoff procedure, severe stress can be prevented by following a well developed plan. Attempts should first be made to use a voluntary system. Early retirement for those with vested pensions might be most desirable. Offering attractive severance packages could motivate individuals with marginal commitment to leave. At some point non-voluntary attrition may be needed. This will be difficult to administer. Effective outplacement and severance benefits can help facilitate the termination process. Attempts should be made to develop a turnover team with human resource representatives from both the acquiring and acquired firms. This should help avoid any biases a one-company team might have. This team should attempt to identify valuable
employees from both companies and attempt to retain them. This presumes that both companies have valid and comparable performance appraisal systems. Retaining good performers from both companies is frequently perceived by employees as fair and will help continue or create a corporate culture that rewards performance. This culture will help in reducing stress and building loyalty and commitment to the new company. It will also help employees in an acquired company feel as though they are an equal in the marriage rather than second-class citizens.

For those who stay in the new company, adjusting and dealing with organizational changes may be stressful. Where the acquired firm is changed dramatically, coping may be more difficult than when minor changes are enacted. With major changes, employees will be concerned about changes in jobs, career paths, reporting relationships, status differences, geographical transfers, and adjusting to the culture of a new company.

When a new company is formed or an acquired company is dissolved (if not in name but in organizational culture), there could be a great loss of identity and pride. This might be especially traumatic for someone who is a long-term employee with a dissolved company, especially if the acquiring company had a lesser public image than the acquired company. This might be a time when the stress of change leads valuable and highly mobile employees to seek other opportunities. Although attractive bonuses and employment contracts could be instituted to keep individuals, these palliatives might not be sufficient to maintain employee commitment, especially if the company culture has dramatically changed. It is essential that acquired employees be made to feel like first-class citizens and identification with the new organization be cultivated. Information exchange, meetings, socials, luncheon speeches, may be quite useful. More importantly, however, is the extent to which these employees are made to feel part of the day-to-day organization and accepted as members of the new team. Team building exercises and participation in decisions and changes, where appropriate, may facilitate this process. Where integration requirements are high and cultural differences between firms great, this necessary process may be difficult.

Maintaining status and prestige in a new organization will also be important for acquired employees. Where individuals are moved into lower level positions, or positions
with less status, self-esteem could be lessened and stress increased. It is fundamental that a transition team prevent as much as possible such problems from emerging.

Under some circumstances, geographical transfers will be inevitable and stress associated with relocation will ensue—such concerns as cost of living, home sale and purchase, the quality of life in the new location, and having to pull children out of schools. For some, however, moving to a new location may be desirable. To prevent such stress, encouraging voluntary transfers may be the easiest route for a company to take. When this is not possible, some reduction in stress may be possible with the use of favorable relocation benefits. These may include: 1) company paid moves; 2) cash allowances; 3) home sale loss allowances; 4) real estate sales fees; 5) mortgage interest subsidies; 6) company house buyouts; 7) salary adjustments for higher cost of living areas; and 8) pre-transfer visits. Some sources of stress, such as adjusting to a new location and making new friends, will often be out of an organization's control, especially when family members' adjustments affect the employee. Although costly, the above provisions may be essential in retaining key employees and reducing dysfunctional stress. The organization will also want to consider maintaining stress management programs, individual counseling, and professional help for those people who continue to have severe difficulty in adjusting to change.

Stabilization Stage

Since changes and adjustments may continue throughout this final stage, many of the interventions discussed in previous stages apply during the stabilization stage as well. The key to success is not only recognizing the need for readjustment and flexibility but, most importantly, considering the impact that these events have on employees.

6.5.2 Individual Interventions

Although organizations can do a lot to mitigate employee stress, individuals must be creative in their own actions (Handy, 1969; Thompson, 1982; Business Week, September 17, 1979; September 27, 1982). Personal interventions may be even more powerful in bringing about the adjustments that are needed than are organizationally sponsored interventions.
Planning Stage

The merger or acquisition planning period is an excellent time for individuals to begin, if they have not already done so, thinking about their careers and lives and what will be done if the merger is consummated. Coping is facilitated by preparation and prevention. Preventing oneself from being physically and psychologically vulnerable is important. It is also a time to ask whether alternatives to the current situation are available. This is a time to consider the importance of work in one's total life. Many who fall victim psychologically to stresses produced by a merger believe that their work and company are at the center of their universe. This often creates a psychological dependency that can be devastating if the merger creates job loss or major organizational changes.

Consideration of personal finances, assessment of how long one can survive without a job, and how long it seems to take to find an equivalent job if job loss is likely, may help in deciding the type and amount of severance pay that may be needed and could be negotiated. Reducing financial worries can go a long way in reducing stress. Involving family members in such discussions early may help buffer the current stress and more importantly the future stress for them. Evaluating personal strengths, weaknesses, and goals in life and the current situation with respect to these is essential. From this evaluation, one might consider other organizations or jobs that would be acceptable or even better.

Realistic appraisal or reappraisal of the current situation is also important during this and ensuing stages. Developing a realistic and positive perspective of the merger situation can reduce stress. There are a number of ways in which this can be done. First, there is selective ignoring. or "finding a silver lining." It involves seeking out and focusing on any positive aspects of the situation and, at the same time, ignoring or minimizing the less agreeable or distressful aspects. For example, one manager who learned that his firm was being considered for a possible takeover focused on the positive features of such a change. He stated, "This is a new lease on life. New ideas, new faces, and a new approach is what I really need. I hope that all the rumors about the merger are true."
Second, there is the positive comparison approach. By comparing one's lot, either to someone who is worse off or to one's own situation at an earlier point in a career, the current problems with a merger or acquisition may seem less severe. For example, several individuals who were threatened with job loss because of a merger coped by counting their blessings. A typical response was: "At least they gave me six months to find another job ... my cousin didn't get any warning when they let him go" and "I can't complain, I learned a lot and can find work in another company."

Third, the sting of a merger or acquisition can be reduced if one can look into the future. Having a long-term perspective may help uncover possible alternatives. One person who coped with a merger this way stated that, "Things were starting to get pretty dull and humdrum around here. Now we have a new road to travel on."

A fourth approach is to consider the relative importance of the current situation. Most situations are actually rather trivial with respect to the totality of one's life. One woman involved in a merger situation stated that, "This is only one job in my life; if it is lost, I'll find another one. I'd rather have and keep my health and family than worry about merger maneuverings that I can't control." A variant of this reappraisal approach is to pose the following question in the midst of merger or acquisition events: "What is the worst thing that could happen because of this?" In most cases, the worst thing a rational person comes up with is really not so bad.

The fifth approach points to modifying unrealistic expectations such as assuming that everything will change because of the merger or that nothing will change. Some change is likely and it is important that individuals not exaggerate its influence on them.

The key during the planning stage is to consider that a merger is possible and, to the extent possible, plan for it. Planning gives individuals some control over the situation, a key element in effective coping.

In-Play Stage

Individual coping is the key during the in-play stage. This will be a period in which the imminence of the merger will heighten stress due to perceived job loss and change. Those who have well-developed careers, have put many years into their
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company, are content and well established in their lives might be the most vulnerable. The response, "Why is it happening to me when things were going so great?" is likely Continued stress prevention and vigilance in seeking out viable job alternatives, reevaluating career and life goals, and planning against financial problems remain important. Individuals must continue to appraise the situation and look not only at the threats but also at the opportunities that might emerge from the merger.

This is an excellent time, if the merger or acquisition is probable, for individuals also to investigate the acquiring company's history with respect to treatment and retention of employees in past mergers and acquisitions. They must realize that the pending merger might have different implications from previous ones and try to learn as much as possible, through public and personal sources, about the other company and possible managerial or employee counterparts. This might help in determining whether job loss is likely and, if not, what possible roles one will serve in the new company. If in a position to do so, an individual should pursue an employment contract as a safeguard (Tarrant, 1985)\textsuperscript{25}. Clauses to protect salaries, benefits, job position and definition, and job location can be very useful. An employment contract is legally binding in a merger. If job loss is likely, individuals should strongly negotiate for severance benefits. Staying cool, realistically appraising the merger events, and planning future moves, whether in the merged company or the new company, is the essence of effective stress prevention. At worst, it will give individuals something to think about other than negative merger changes.

Keeping family members informed and including them in the planning process continues to be important in avoiding stress. Families also must develop effective coping mechanisms and provide needed support during this critical time.

**Standstill, Transition, and Stabilization Stages**

During these stages many of the uncertainties will lessen. Many of the negative scenarios about job loss or change will not come to fruition; in fact, there might be little, if any, change in the organization (e.g., as in the case of a wholly-owned subsidiary).
Again, however, preparation and accurate appraisal of one's self and the new organization are important for effective coping. As the merger unfolds, individuals must avoid panicking. They should not become paralyzed by anticipated and/or rumored changes. This is a time to remain in control and plan. The standstill period following the actual signing of the merger agreement will be difficult. Continued evaluation of personal goals, values, career, and most importantly, productivity and worth to the acquiring company are essential. If one's presence is instrumental to the success of the acquisition, job loss is less likely. Whether one's skills and abilities and personal image fit with the new organization will influence one's role in the organization.

While making these assessments, an individual should maintain professionalism, avoid office gossip, remain objective, and continue to concentrate on his/her work. By becoming antagonistic toward the acquirer, one's fate might be sealed. If staying with the firm is a goal, it should be made known to management. If one has alternative job opportunities and feels comfortable with leaving, speaking candidly and negotiating about requested changes may be possible. This might be a viable option for individuals who are highly valued by their company.

If an individual is planning to stay with the new company, he/she should learn about salary grades and job titles. If job loss is probable, or if it is unlikely that the company will be a desirable place to work during and after changes are made, he/she might consider early retirement. People over fifty years of age should evaluate the cash values in their company's benefit plan and examine profit-sharing and matched Rs/$ plans essentially, they must consider total income and financial security if leaving a company.

Also, this would be an excellent time for individuals to contact friends, reliable executive recruiters, and top rated employment agencies to seriously consider alternative employment opportunities. Helping family members overcome their personal stress will also help in overcoming the employee's own stress and provide a needed source of social support. Job loss, job changes, and transfers do not have to be stressful. Learning to adjust to and deal with change is essential throughout this and all periods of the merger process.
6.6 CRITICAL ROLE OF TRUST IN MERGERS AND ACQUISITIONS

In M&A, special emphasis is usually put on the strategic and financial goals of the transaction, while the "human factors" do not receive much attention (Cartwright & Cooper, 1999; Nahavandi & Malekzadeh, 1988). However, studies suggest that the "softer", less tangible psychological, social, and cultural factors play a key role in the post-acquisition integration process. Characteristics of the initial takeover situation such as hostile takeover tactics or lack of prior personal contact between the member of the combining organizations can be major obstacles to achieving integration benefits because they can undermine target firm members' trust in the acquiring firm management. Therefore, the sociocultural implications have to be considered at an early stage in the acquisition process, in the evaluation and selection of a suitable target and the planning of the integration process.

Further, various studies (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986) also suggest that the outcome of an acquisition depends heavily on the management of the post-acquisition integration process. While characteristics of the initial takeover situation may form the upper bound on the degree of success that an acquisition can achieve, top management's integration decisions and actions will determine the degree to which that potential is realized (Pablo et al., 1996). Being aware of (and appropriately tempering) the tendency to remove more autonomy from the target firm than might be necessary in order to achieve the projected synergies, can go a long way toward building a relationship that is based on trust. Carefully setting the appropriate tone in and after the negotiations, providing opportunities for interaction between members of the target and the acquiring firm, and improving incentive and reward systems will also have a positive impact on trust, and increase the chances for successful integration.

Trust (or distrust) between the members of the two organizations involved in merger or an acquisition can be contagious. If unaddressed, mutual distrust between the members of the combining organizations may grow in intensity until relationships are irreparably damaged and integration fails. Symbolic or tangible acts of trust can help to reverse this negative spiral and aid in creating a climate of trust. This chapter delineated a number of interventions that can be taken by the top management in order to prevent the occurrence of distrust and to create a culture based on trust following M&A.
6.6 MANAGING CULTURE

The manageability of culture by Corporate leadership cannot be over emphasized. The organisation looks to culture to define its business, strategy, position in the market, and preferred ways of delinked with internal and external constituencies. (Ref: E. Schein, Survival Guide, p.30) A diagram of the centrality of culture based on the work of Jay Galbreath is given below:

FIGURE – 6.4
Culture Change Elements


Cultural differences among partners are a major threat to the success of mergers, capable of causing distractions, strife, misery and serious financial loss. Here are the principal suggestions for dealing with culture shock.
• **Diagnose cultural differences.** The due diligence process should include a disciplined effort to identify and evaluate areas of cultural differences. This process is designed to develop a cultural profile of the target company and; how it meshes or clashes with the profile of the acquiring company. The analysis covers such areas as organizational form (centralized vs. decentralized), business orientation (short term vs. long term), leadership style (autocratic vs. collaborative) and a host of other comparisons.

• **Decide and forcefully communicate what the culture should be.** Employees of the newly acquired company generally want to be told what is expected of them. Unless the employees are given a clear picture of what the new owner wants, there will be confusion and a loss of productivity.

• **Prepare a detailed integration plan.** A high-level view of the integration plan should be prepared as part of diligence and incorporated in to the executive team review, prior to deciding on whether to sign the deal.

• **Build an elite integration team.** High-potential men and women should be put out of their jobs and impaneled on a full-time basis with a business leader who is also a very high-potential person. Once these executives become integration team members, their personal goals and incentives are adjusted "to tie in exactly with their responsibilities in the integration plan."

• **Select the integration team from the acquiring business unit.** "The philosophy is that people in the acquiring business do all the integration because they are the ones who will own it, and they are the ones who have the business and marketing insights."

• **Give managers in the new company an early voice.** As soon as law permits, an off-site meeting should be held among senior leaders of both companies to "give [the acquired company] a real voice in the integration plan and the communication effort to employees and customers."

• **Arrange cooperation between the due diligence and integration teams.** Formalized meetings should be organized where the integration team gets to pick the brain of the due diligence team and studies their reports.
• Be reasonably flexible. While the integration plan is quite specific, there must be flexibility so that managers can change certain details based on new knowledge of what’s best for the business.

• Closely monitor integration progress and review the results. One objective of these reviews is to discern differences between the findings of the due diligence team and the experiences of the integration team.

• Be willing to walk away from a cultural mismatch. Where there is severe cultural mismatch and there is very less possibility of the problem being successfully handled, deals should be called off.

• Learn to be a flexible owner. While some companies have all but abandoned buying small units owned by entrepreneurs, others are learning to allow such companies to operate with greater freedom than in the past. This is also true of cross-border companies.

6.8 THE IDEAL OCTAPACE CULTURE

The organizational culture plays a significant role in making organisations get the best out of themselves. Abraham’s (1989) study has established the linkage between the HRD climate and organizational performance in financial terms. Even if the climate does not show any direct linkages at a given point of time, logically it makes sense to have a good HRD climate for the benefit of the organisation. The culture provides the energy needed to function well by ensuring as it were a proper circulation of blood through all the organs. The HRD culture is one that results from the believes of the top management initially and subsequently from the HRD systems and practices. If the culture is good a number of things can happen. Hence creating a culture becomes important in any organisation. The HRD culture should have the following characteristics

• It should be a learning culture.

• It should facilitate the identification of new competencies of people (individuals dyads and teams) on a continuous basis.
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- It should facilitate bringing out the hidden potential and new talents of people.
- It should help in developing new competencies.
- It should have in-built motivational value. In other words, it should have a self-sustaining motivational quality. People are committed to what they do and they need not be told to act. They act.
- It should enable people to take initiative and experiment. Initiative and experimentation are the corner stones for development. They enable individuals, teams and organisations to discover new potential in them.
- It should bring joy and satisfaction in work. Work should not become a drudgery. It is made enjoyable by a good work culture. Relationships matter and have an enabling capability.
- It should enhance creativity and the problem-solving capabilities of people.
- It should enhance the action orientation of individuals dyads and teams.

Such a culture has been termed as OCTAPACE which we have seen earlier as an acronym for openness, collaboration, trust and trustworthiness, authenticity, proaction, autonomy, confrontation and experimentation.

1. **Openness** is there where feel free to express their ideas, opinions and feelings to each other irrespective of their level, designation, etc.

2. **Collaboration** is the culture where people are eager to help each other.

3. **Trust and trustworthiness** deal with a culture of people believing each other and acting on the basis of verbal messages and instructions without having to wait for written instructions or explanations. There is no need for monitoring and controls.

4. **Authenticity** is speaking the truth fearlessly and keeping up the promises made.

5. A **proactive** culture promotes initiative and exploration on the part of all employees. A proactive culture encourages everyone to take initiative and make things happen.

6. **Autonomy** is present if every role-holder in the organisation, irrespective of his level, has some scope to use discretion in his job.
7. **Confrontation** is the culture of facing issues squarely. People discuss issues with very little fear of hurting each other.

8. **Experimentation** is the orientation on the part of the employees to try out new ways of doing things and take new decisions.

Mergers and acquisitions create traumatic and stressful situations to which hundreds of thousands of managers and employees have been subjected in recent years. Since it appears likely that there will continue to be a significant number of such situations, it is crucial that careful attention be paid to the impact that these major corporate events have on employees. A high percentage of corporate combinations have failed to live up to expectations because little or no preplanning was given to the human resource problems created.

Although merger-produced stress is inevitable, its effects can be minimized. Probably the biggest step that can be taken toward more effective management of merger stress is to become aware of how damaging are its consequences. Many employees do not have the resources and knowledge to effectively eliminate merger-produced stress; however, together organizations and employees can take specific steps to better control and minimize stress. The truth is that merger-produced stress has not been on the "must do or must consider" agenda of management and human resource professionals. Statistics tell us that, although most mergers do not turn out as planned, management's success rate can be improved by doing something about employee stress. Therefore, from various studies and research, it has been found that half of all M&As fail to create the value expected of them, and much of this failure can be attributed to HR issues. "The people consequences of business decisions must be anticipated and planned for from the pre-deal stage. The earlier sound 'analysis and scenario planning is started, the smoother the transition will be," opine researchers.
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