

MANAGING MERGER AND ACQUISITION PROCESSES: AN INTEGRATIVE FRAMEWORK

MYEONG-GU SEO

Organization Studies Department
Wallace E. Carroll Graduate School of Management
Boston College
Chestnut Hill, MA 02167-3808

INTRODUCTION

Merger and acquisition (M&A) refers to a combination of two separate organizations. M&A has a very long history; it has existed at least since the 1900s (Gaugan, 1999). However, the saliency of M&A has increased considerably during the past two decades as numerous US firms have adopted M&A as a common corporate strategy to expand their organizational capabilities and to take better competitive market positions (Buono & Bowditch, 1989). This proliferation continued during the 1990s and beyond, including 7,809 M&A transactions with a total value of \$1.19 trillion in the United States in 1998 alone (Gaughan, 1999). As a result, M&A has been an important fact of organizational life. For example, at least one in four U.S. workers has been affected by the current M&A waves (Cartwright & Cooper, 1993b), and one out of 10 workers lost their jobs in the first 3 quarters of 1998 was a result of M&A (Harrison, 1999).

M&A necessarily involves organizational change, in particular integration of some or all parts of the previous organizational functions and/or activities. In particular, as the recent M&A waves are dominated by horizontal megamergers within related industries (Gaughan, 1999), organizational change involved in M&A has become larger in scale and longer in transition period than any other types of organizational change (Cartwright & Cooper, 1996). Moreover, researchers have reported extreme difficulties in managing such a large-scale organizational change and its traumatic impacts on employees, such as layoffs, turnover, stress, and illness (e.g., Buono & Bowditch, 1989; Fried, Tiegs, Naughton, & Ashforth, 1996; Ivancevich, Schweiger, & Power, 1987; Newman & Krzystofiak, 1993). These difficulties in managing M&A processes have been often underestimated and/or inadequately addressed by corporate policy makers and managers, resulting in poor performance of many M&A attempts (Cartwright & Cooper, 1996), for example, a high failure rate (e.g., Harbey & Lusch, 1998) and low profitability (e.g., Fairburn & Geroski, 1989; Ravenscroft & Scherer, 1989).

In spite of the growing popularity of M&A as well as the reported dilemmas and difficulties in managing the M&A related organizational change processes, the nature and characteristics of organizational change involved in M&A have not been clearly understood. Moreover, the past academic research on M&A has been too limited and fragmented to provide a comprehensive and integrative explanations of: 1) what are the precise sources of problems in the M&A integration process, 2) when and how they affect employees, and 3) how to timely and effectively manage them. As an initial step to fill these gaps, this paper first attempts a conceptual groundwork that pulls together the highly fragmented past research on M&A and surfaces the underlying theories on which the M&A literature is explicitly or implicitly based in explaining 1) the sources of problems, 2) their psychological and behavioral effects on

employees, and 3) the related prescriptions in the M&A implementation processes. Then, those underlying theories are integrated into one conceptual framework, which delineates when and how the predictors of different theoretical roots have differential effects on employees' psychological and behavioral responses in the different stages of the M&A integration process.

SIX UNDERLYING THEORIES IN MERGER AND ACQUISITION LITERATURE

A careful examination of the theoretical roots in the existing M&A literature reveals six distinctive theories. Each theory identifies distinctive sources of problems that emerge during the M&A related organizational integration processes, predicts their psychological and behavioral effect on employees, and suggests relevant prescriptions to prevent and/or address the problems.

Anxiety Theory

Many researchers argue that because M&A usually involves a large-scale organizational change with substantial uncertainty, people predict its possible negative impact on their future jobs and careers – often the worst scenario – even before actual integration occurs (e.g., Ivancevich, et al., 1987; Rentsch & Schneider, 1991). They also suggest that it may increase employee anxiety, which in turn, reduce productivity and generate various survival-seeking behaviors. Research suggests that employees generally experience a high degree of anxiety when facing the possible occurrence of M&A (e.g., Cartwright & Cooper, 1993b; Ivancevich, et al., 1987). On the other hand, some authors suggest that not only the degree but also the duration of uncertainty and anxiety can be a major source of employee stress during M&A (e.g., Cartwright & Cooper, 1996; Ivancevich, et al., 1987). They argue that prolonged anxiety and stress can cause various psychological and physical illness and lack of motivation to go through M&A transition.

Social Identity Theory

M&A typically involves abandoning the old organizational identity, interacting with a different organization and its organizational members, and creating a new organizational identity. Social identity theory (e.g., Ashforth & Mael, 1989; Kramer, 1991) suggests that this may cause serious problems. As much as employees identify themselves to their previous organization, when facing M&A, they are likely to feel a profound sense of loss, anger, and grief, which lead to refusing the acceptance of change (Buono & Bowditch, 1989; Schweiger, et al., 1987). As the organizational integration process proceeds, people are also likely to develop strong ingroup/outgroup biases causing various inter-organizational conflicts, or even engage in acts of rejection and noncompliance to the acquiring firm (Elsass & Veiga, 1994; Haunschild, et al., 1994).

Acculturation Theory

M&A also involves combing two distinctive organizational cultures or imposing one over the other. Therefore, employees, especially from the acquired firm, are likely to experience significant stress and tension in interacting with and adjusting to a new organizational culture (e.g., Cartwright & Cooper, 1993a; Mirvis & Mark, 1992). Acculturation theory, which is originated from anthropology and cross-cultural psychology, provides useful explanations about this source of stress and tension (e.g., Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988). It

predicts that acculturation tensions and conflicts will be highest when organizational members' desire to maintain their separate culture is strong but the forces of organizational integration are also strong (related-horizontal M&A).

Role Conflict Theory

Researchers also report that the M&A integration process often involves disrupting the existing cultural, structural, and job arrangements and creating new arrangements, and that employees may experience high degrees of ambiguity, confusion, and conflict regarding their cultural, structural, and job-related roles in the new organizational environments (e.g., Buono & Bowditch, 1989; Marks & Mirvis, 1992). Role conflict theory suggests that this role ambiguity and conflict is another viable source of stress, which may lead to lower work motivation and job dissatisfaction (e.g., Igbaria & Guimaraes, 1993; Sims & Szilagyi, 1975).

Job Characteristics

Some researchers, based on job characteristics theory (Hackman & Oldham, 1975), suggest that changes in employees attitude and behavior following a M&A may largely reflect how favorably or unfavorably their job-related elements – such as job characteristics, career paths, work relationships, status differences, geographic transfer, and job security – are changed after the merger (e.g., Newman & Krzystofiak, 1993; Schweiger & Walsh, 1990). In other words, M&A is nothing more than other types of large-scale organizational change and employees' attitudes and behaviors may not be changed unless M&A affects their job environments. It has been generally suggested that perceived or actual job characteristics decline after merger (e.g., Buono, et al., 1985; Newman & Krzystofiak, 1993). Moreover, Newman and Krzystofiak (1993) found that this decline accompanies substantial drop in employees' job satisfaction and commitment.

Organizational Justice Theory

M&A often involves important decisions regarding reselecting and displacing employees. Organizational justice theory provides important insights regarding how these decisions can affect the surviving employees' perceptions and behaviors. It predicts that employees may pay a close attention to how those decisions are made and how people are treated during the M&A integration period (e.g., Greenberg, 1987), and that to the degree to which they perceive unfairness in either the process or the outcome of those decisions, their satisfaction, commitment, trust, and intention to stay may decrease accordingly (Dailey & Kirk, 1992; McFarlin & Sweeney, 1992). M&A researchers also consistently reports that employees' perceived fairness of how both survived and displaced employees are treated influences their attitude (psychological withdrawal) and behavior (turnover) after merger (e.g., Gutknecht & Keys, 1993; Mirvis & Marks, 1992; Schweiger, et al., 1987; Fried, et al., 1996).

AN INTEGRATIVE CONCEPTUAL FRAMEWORK

Although the theoretical clarification discussed above is an important first step, it is still not sufficient to have more integrative and comprehensive understanding of the M&A related organizational change processes. To do so, it is necessary to further develop a theoretical

framework that explains the interrelationships among those six distinctive theories, in particular, when and how each of these theories exercises its explanatory power during the organizational change processes. This paper attempts to integrate the six underlying theories based on a temporal variable, the stage of the M&A integration processes. In particular, combining the stage models of Buono and Bowditch (1989), Ivancevich and his colleagues (1987), and Marks & Mirvis (1992), this paper presents a four-stage model of M&A integration process and provides explicit explanations of how the theoretical variables identified above may have differential impacts on employees' psychological and behavioral outcomes at each stage. Table 1 summarizes those differential effects.

Table 1 about here.

Pre-merger Stage

This stage consists of various M&A related considerations and discussions, but such discussions are likely to be confined to top managers and executives (Buono & Bowditch, 1989). Although those discussions are usually attempted in secrecy, various rumors often occur through information leaks by internal negotiators or external financial experts (Ivancevich, et al., 1987), which make employees very uncertain and anxious about the impending event and their future (Bastien, 1987; Buono & Bowditch, 1989). As both organizations approach more formally and the possibility of merger becomes more apparent, more detailed speculation on possible detailed organizational change often surfaces (Ivancevich, et al., 1987), which in some cases (hostile takeover or horizontal merger), substantially increase employees' uncertainty and anxiety (Ivancevich, et al., 1987). Therefore, while all other sources of stresses are still unaffected, only the anxiety and uncertainty related stress is likely to be substantially high in this stage. However, the organizations are likely to be relatively stable at this stage (Buono & Bowditch, 1989).

Initial Planning and Formal Combination Stage

Once the merger is officially announced and it becomes reality, the level of anxiety may reach the highest level (Buono & Bowditch, 1989). People are likely to be preoccupied with what the deal means for their jobs, livelihood, and career (Marks & Mirvis, 1992). However, this source of stress may be substantially reduced when important decisions are made and announced regarding which departments or units are affected by the merger and who should leave and who should stay (Marks & Mirvis, 1992). However, other sources of stress and conflict are likely to get into play in this stage. First, as the formal organizational entities no longer exist and as employees experience or anticipate loss of their old jobs and/or valued co-workers, employees are likely to feel strong sense of loss, grief, and even anger (Ivancevich et al., 1987). Second, this loss of identity and valuable past may foster developing strong antagonism and biases towards the other organizational members, who are often perceived as "invading enemies" (Buono & Bowditch, 1989). Especially, as intensive interactions between the two organizational members start through various joint committees or inter-organizational teams, inter-group biases and conflicts are likely to be reinforced especially when making decisions on such controversial issues as who should lead and staff the newly combined departments (Buono & Bowditch, 1989;

Marks & Mirvis, 1992). Third, these inter-organizations conflicts are likely to be escalated, as they clash in cultural differences (Buono & Bowditch, 1989; Marks & Mirvis, 1992). Various culture-related misunderstandings and stereotypings may erupt in this period (Marks & Mirvis, 1992). The degree of perceived cultural difference may increase employees' reluctance and defensiveness to M&A initiatives (Cartwright & Cooper, 1993a; Elsass & Veiga, 1994). Finally, employees are likely to observe how various controversial decisions are made in the newly combined organization, particularly decisions on employee selection and displacement (Gutknecht & Keys, 1993; Ivancevich, et al., 1987), and their perceptions of unfairness may start to have serious negative impact on employees' satisfaction and further commitment (Dailey & Kirk, 1992; Fried, et al., 1996; McFarlin & Sweeney, 1992).

Operational Combination Stage

This stage involves actual integration of organizational functions and operations, which sometimes takes years (Buono & Bowditch, 1989). First of all, the inter-group conflicts and the culture clash, both of which were mostly confined in top management and joint committees in the previous stage, are likely to spread to the entire organization, as the combination of day-to-day operations unfolds (Marks & Mirvis, 1992). The battlegrounds are often decisions over new job assignments and role negotiations in the combined work units (Marks & Mirvis, 1992). Second, role ambiguity may become a new viable source of stress at this stage. At this stage, employees are likely to experience a high level of role ambiguity as virtually all aspects of their jobs – their tasks, bosses, responsibilities, co-workers, and expectations – need to be reestablished and renegotiated (Marks & Mirvis, 1992). This process can be very stressful to employees, because the process is often highly political and there is sometimes little information and directions available (Buono & Bowditch, 1989). Third, the results of these job reassignments can make substantial impact on employees. Employees who perceive that the characteristics and environments of their jobs are worse than those of their previous jobs are less likely to commit themselves to the newly combined organization (Newman & Krzystofiak, 1993). Besides, there are three other sources of problems still influencing or starting to influence employees' reactions at this stage, although they may not be as strong as the four predictors discussed above. Employees are still likely to mythologize their old organizations and old jobs, and to mourn over the unfairly lost co-workers (Marks & Mirvis, 1992). They may still feel uncertain and anxious about their new tasks and responsibilities (Marks & Mirvis, 1992). Moreover, if employees have gone through more than a couple of years of unsettled situations, a new source of stress – prolonged uncertainty and anxiety – is likely to be get involved, causing various mental and physical illness and lack of motivation (Cartwright & Cooper, 1996; Ivancevich, et al., 1987).

Stabilization Stage

The final stage is the consolidation process as the operational integration is completed. As tasks and roles are stabilized and new routines emerge, most of the stress-generating causes may gradually disappear. However, it is also likely that several of them still remain influential at the stage. First, cultural and psychological integration usually takes longer than any other integration (Buono & Bowditch, 1989). Thus, employees may need more time for cultural adjustment even after operational integration. Second, the stabilization of employees' new job characteristics, if they are worse than the previous ones, may also have an enduring effect on their job satisfaction

and commitment (Hackman & Oldham, 1975). Third, if the perception of procedural and distributive injustice may have destroyed the basic trust with the new management, it seems also difficult to reestablish in a short run (Dailey & Kirk, 1992; McFarlin & Sweeney, 1992). Thus, once adopted, this negative perception may also have a dragging negative effect on employees' job satisfaction and commitment at this stage. Finally, prolonged anxiety and uncertainty, if not adequately handled in the previous stage, are likely to increase their negative effect on employees' mental and physical health.

DISCUSSIONS

This paper may provides a useful conceptual ground on which the nature and characteristics of organizational change involved in mergers and acquisitions – its uniqueness and complexity, in particular – can be theoretically explained and understood. This theoretical clarification is also a necessary step for further theoretical development and empirical investigation on this increasingly important type of organizational change. Furthermore, the integrative framework in this paper can be used as useful practical guidelines for developing, organizing, and implementing various organizational practices and activities to timely and effectively manage the M&A related organizational change processes.

REFERENCES ARE AVAILABLE FROM THE AUTHOR

TABLE 1
Different Sources of Problems in Different Integration Stages of Mergers and Acquisitions

Theory Basis	Sources of Problems	Stages of the M&A integration process			
		Pre-merger stage	Initial planning and formal combination	Operational combination stage	Stabilization stage
Anxiety theory	Uncertainty & Anxiety	Medium-high	High-medium	Low	Low
	Prolonged anxiety	Low	Low	Low-medium	Low (High)
Social identity theory	Loss of Identity	Low	High-medium	Medium-low	Low
	Inter-group conflicts	Low	Medium-high	High-medium	Low
Acculturation theory	Acculturation	Low	Medium	High	Medium-low
Role conflict theory	Role ambiguity	Low	Low	High-Medium	Low
Job characteristics	Job changes	Low	Low	Medium-high	Medium-low
Organizational justice theory	Unfair treatment	Low	Medium-high	Medium	Medium-low

Copyright of *Academy of Management Proceedings & Membership Directory* is the property of *Academy of Management* and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.