Company acquisition from employees’ perspective.

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Company acquisition from employees’ perspective.

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Mergers and acquisitions have always been one of the most riskiest and challenging undertakings that companies could face. M&A activities require extensive due-dilligence in order to minimize the risks. This thesis is about a particular merger case of two companies. The thesis focuses on reviewing the merger from employees perspective in the post-acquisition time. There are two research questions in this thesis, and answering them the writer aims is to explain the effects of the merger to the new organization, and also map out the possible risks of the merger from the employees view.

The theoretical part of this thesis defines the meaning of mergers and acquisitions, and takes a glance into the process and timeline of M&A activities as a whole. The post-acquisition integration part is given a more elaborate review, as it is the focus of this thesis. Lastly, the theory section explains elements of the corporate culture which are relevant to the case, as well as matters of business continuity focusing on employee attrition.

Qualitative research has been chosen as the main methodology for data gathering, due to investigative nature of research, as well as sensitivity of the topic. Data gathered in interviews is grouped in to themes, which are analysed in the latter part of this thesis. Lastly the thesis presents conclusions of the analysis.

Keywords: Merger, acquisition, culture, employee
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Companies have been making consolidation activities for a long time. Majority of the biggest corporations nowadays have some kind of merger & acquisition activity in their history. The process of merger & acquisition activity is very thrilling, as every case is different. There are so many factors involved in the process, and diligent integration management is the key for a successful integration. Mergers & acquisitions are conducted for companies’ strategic reasons, which are numerous and often based on a certain goal that is tried to achieve with the M&A activity. A corporation can make an entry to a foreign market by buying out a local company, strengthen their position by buying out a successful competitor, or even make a venture to a whole new industry. The acquired company might be presented with such an opportunity surprisingly, or it might quite often have had an exit strategy prepared for these kind of situations, where they expect to be acquired by a bigger company. (Goedhart, Koller, & Wessels, 2017)

Company which has decided to acquire another business has made a bold strategic decision, since M&A process is not an easy undertaking. Depending on different studies conducted on the subject, some 70 to 90 percent of the mergers fail - and by failure meaning situations ranging from failure to boost shareholder returns, to actually losing a lot of money. Failure in a M&A scenarios can result from many factors. A merger is a delicate process, and even those challenges that might seem minor, can become large issues if they stay unaddressed during the integration. The snowball effect can especially build up regarding human resources, information technology, and cultural issues. (Krug, 2003)

This assignment is commissioned by an internationally operating company, later in this text mentioned as Company A. The company has made a cross-border acquisition during July-August 2016, and the integration of two companies is still underway on the day this thesis is published. This thesis will address the cultural and human resource aspects of the integration. The thesis contains information gathered during interviews of employees of both companies. Company A is very familiar to the writer of the thesis. Writer has been an intern in the company in 2015, and later employed to the company before the announcement of the acquisition. The writer himself has witnessed the integration ongoing as an employee, and thus has gained valuable information during the ongoing process. Being able to see the integration happening from the inside gives valuable information especially concerning the employee and cultural issues of the integration. The employment continues, and the possibility to conduct thesis on the integration opened during fall 2016.
1.1 Background: Case companies

Company A acquired a bigger company on a national level by both size, and revenue. This company is later mentioned as company B. Company A is the global market leader in its field, and local acquisition of company B was a strategic move by company B to grow their operations in Finland. Acquiring Company B grows the company size in to the top-5 on a national level, as well as diversifying company A’s market segment.

This particular acquisition process is quite unique. If we review the situation strictly on the national level, setting all other factors aside, then this situation looks like it is a merger between company A and company B. The situation is really close to a scenario of “mergers among equals”, as companies are quite alike size-wise. The outcome will involve two companies joining their forces to try to achieve synergies while retaining their own distinctive brand names and practices. An acquisition of this kind is called a horizontal acquisition. In this type of acquisition, the competitors operate in the same industry, varying only in the types of focus areas they might have. Company A is not focused in any specific field, while company B has a clear focus on the construction and mining industry.

However, company A is the branch office of the global company A “group”, which essentially makes this a cross-border acquisition. What makes this situation more intriguing is that on a national level, company A was actually a slightly smaller company than company B. Being the acquired company, company B’s position to this acquisition comes across as two-folded. While being acquired by a corporate giant with a distinctively different corporate culture and way of doing things, yet it is still having a better business success locally.

The challenges the management and the integration team will face in this process are numerous. Initially, the integration process is never a walk in the park, and neither it is in this case where two big companies combine. Additionally, the companies have a different business culture and the way of doing things, which brings an extra challenge to the mix.

1.2 Research Problem & Objectives

Diving into the complex world of M&A, the objective of this thesis is to map and understand the risks involved with this merger that could hurt continuity of a newly emerged business, as well as to find out the positive and negative risks involved in mergers and acquisitions, with the focus being on this particular case.

The primary research question is: What are the effects of the merger on the new organization involving two companies. This question encompasses different areas of the integration, and the themes will be found out in the investigative interviews of employees.
The second research question is: What are the main risks of this acquisition, as perceived by the company’s employees. Through the research of the possible risks as perceived by employees, the management can get a new insight to the potential risks that might have slipped under the radar, and to prepare for those situations in advance by reviewing my thesis. While the writer fully trusts the professionalism of the integration team in this matter, there still might be some overlooked issues.

1.3 Limitations

The primary research is focused on the Tampere and Pasila-Vantaa branches, where the office locations have been integrated. Due to financial and time restrictions, the writer has not conducted trips to other branches in Finland. This leaves out all of the locations of both company A and company B which have not been integrated under the same location. The limitation regarding this aspect is due to the fact, that no opinion of the employees has been researched in those locations. It can be assumed, that their perception of the integration must be different at least to some extent, as they have no exposure to the other company or their employees, therefore lacking the cultural melting of the two.

In order to get a better insight for this research, the interviews of employees of the branches which have stayed under the company A or company B brand alone must be conducted. From that gathered data, a new perspective could be gained upon comparing of the two different segments of employees - those whom integrated together and those who did not.

2 Research Methods

This thesis uses two types of sources as a basis for data. The primary data was gathered with the interviews of company employees. Interviews have been conducted in two different locations, where the two companies have been moved under the same premises at that time. The secondary data has been used to wide extent to get a better understanding of the topic as a whole. The core knowledge has been gathered from books, with some supporting data and little nuances been investigated in journals and articles on the internet.

2.1 Research data

A decision to use qualitative method over the quantitative method has been chosen in this research due to the nature of the issues under research. Research interviews allow the researcher to gain deeper insight with the interviewee through creation of rapport between the two. Using the interview method allows the researcher to get more specific data, and allows the possibility to ask additional questions regarding the subject. (Lewis, Saunders & Thornhill 2016, 389)
Business and management studies usually involve both qualitative and quantitative methodologies. Some qualitative data could be analyzed in form of a questionnaire to gain numerical statistical data of the subject. Quantitative data allows for the certain aspects to be better interpreted, as it allows for the easier comparison between different target groups, such as employees and management. For this research no quantitative analysis has been used. While the sample of interviewees is small, but it is spread well regarding different positions of the persons - involving both management and employees. (Lewis et al. 2016. 165-166)

Between the different types of interview methods, semi-structured interviews has been chosen as the most convenient for this research. The question list has been prepared for the interviews, and they were used to guide the interview onwards. The planned structure of the interview was to advance chronologically, first talking about the past, then present, and lastly about the future. In interviews certain questions could be skipped if the interviewee him/herself provided the answer during the conversation. Quite often answer to the question would ensue open conversation, supporting the free flow of thoughts of the interviewee. Additional questions were asked in order to clarify or gain more knowledge on the subject case-by-case.

Most important type of data concerning this project has been the interviews of the employees, since it is the newest available data, which directly concerns this particular M&A situation. The standpoint to this research has been taken strongly from the employees’ perspective.

Both companies are spread in various locations throughout the country, ranging from Helsinki to Oulu. The integration activities concern employees everywhere in the country, and while the general opinion can be sought out by interviewing the employees of two locations, it leaves out some important gaps in the research.

2.2 Research analysis

Qualitative research is heavily influenced by researchers interpretation of socially constructed meanings said by the interviewees. Researcher is encountered with a phenomenon called social constructionism, which means that meanings and realities are dependent on researcher’s interpretation of occurring events, which in this case, are the interviews. Since findings are dependent on social interaction, the data is a lot more complex than quantitative data. (Lewis et al. 2016. 568)

While quantitative research is based from numbers data, quantitative research is in turn dependant on words, images, and observations. Words must be analyzed with great care, as
they can carry multiple meanings, as well as hidden meanings. The end quality of qualitative data is dependant on careful analysis and exploration of the said data. Making the analysis complex, is the fact that amount of data is abundant, more complex and delicate. (Lewis et al. 2016. 568-569).

In order to conduct a thorough analysis of the qualitative data, it must be condensed into conceptual groups and themes, and then link them together in a way which can answer the research questions. Without the undertaking of these actions, the qualitative data will merely stay at the level of impressionistic review. (Lewis et al. 2016. 569).

There are two ways to approach qualitative research - deductive and inductive. In deductive approach an existing theory is used as a basis of research, which shapes the process of data analysis. In inductive approach a newly gathered theory is used to create a new theory. Deductive approach is harder to apply to qualitative research, since the existing theoretical database can often be insufficient enough to cater the needs of the research. This thesis is based on both inductive and deductive approach. (Lewis et al. 2016. 569).

The research of this thesis began with a grounded approach. Data collection began without the initial theoretical framework, and main themes emerged during initial data collection. After discovery of the main themes, the theoretical framework has been picked for this thesis.

A theoretical framework supporting the research has been composed from existing literature about the M&A activities, as well as corporate culture. These are the two main themes involved in this thesis which initially emerged. Studying the process of M&A has been essential to understand the big picture, and literature about M&A often includes human resource issues, which can be linked to the findings. Knowledge about corporate culture has been important to understand the effects of culture on the M&A event, as culture is something really untangible yet powerful, that it has to be weighted in to this research. This framework relies on writers previous experiences and assumptions, and it provides the initial direction for the analysis of the data.

There is a lot of existing theories, literature and studies about mergers and acquisitions involving the process as a whole, as well as the human resource aspect. Moreover, there is plenty of literature about corporate culture, which can be linked to certain behaviours and interview answers made by the interviewed employees. Multiple sources have been reviewed and cited in this research.
3 Key concepts

The purpose of the following chapter is to define key concepts used in this thesis, as well as give the reader an overview of the cross-border M&A process, and the phases involved in it.

The structure of the following section starts with the definitions of merger and acquisition, as well as the roadmap of aspects leading towards the M&A situation. The integration part will focus on the activities involved after the deal has been made. The second last part discusses corporate culture, and lastly the subject of business continuity from the HR standpoint is covered.

The culture section will focus only on the corporate culture. The culture part will not be evaluated that thoroughly, as culture in itself as a sole approach to this thesis would require a thesis of its own.

3.1 Definition of M&A

A merger is when a new company is being born after two companies are joined together. They either become a totally new brand, or exist alongside with two different names. The main criteria in a merger is that a new legal entity is being made, and two former ones are being dissolved. (Whitaker 2012)

An acquisition involves one firm purchasing another companies most - if not all shares, thus taking control of the company. The acquired company is typically smaller, and is most of the times blended in to the acquired company. The vast majority of cross border deals tend to be acquisitions. (Evans, Björkman & Pucik. 2011)

A cross-border acquisition is where a foreign entity makes an acquisition of a company in a country, which the acquiring company is not originally from. The acquisition does not necessarily mean, that the acquiring company as no initial activity in the country. Besides the way of establishing presence in the country, cross-border acquisition can also be used when the company is already present in the country. Cross-border mergers & acquisitions happen for multiple reasons. It is an attractive way for a company to grow inorganically, and to internationalize. Corporations are often looking to fortify their market presence in a country by buying out their direct competitors, as well as the companies up- or downstream. (Evans et al. 2011)

In this particular case, the situation is effectively a cross-border acquisition. A strategic opportunity has been foreseen in the headquarters of the company A to strengthen the position
of the company on a local level. Since company A is a branch of a big corporation, it is reporting to the company HQ in another country. Therefore, the initiative for M&A activities comes from the HQ.

At times, it can actually be quite difficult to make a differentiation between a merger and an acquisition. Some mergers look like acquisitions, while some acquisitions are framed to look like mergers. Most of the time, mergers actually look like acquisitions, which is the majority of all M&A transactions (Evans et al. 2011)

The acquisition can be either friendly or hostile. From the perspective of the shareholders or the very top of the management, the acquisition is always more or less of a friendly kind. However, even in the friendliest scenarios there are still clear winners and losers, especially concerning the workforce.

3.2 M&A framework

The process of creating new business through mergers or acquisition is a very complex one. There are many things to take into consideration, and using a systematic approach to the M&A process is important in order for the process to succeed, and to not miss any critical issues. New business creation is a challenging endeavor, with various sources indicating some 50-80% chance of failure of M&A.

A book written by hassett, rantala, et al. is the outcome of a research project made in collaboration with the Turku School of Economics, and VTT Technical Research Center of Finland. The project was titled as “Managing the M&A process - from opportunities to new business creation”, which is abbreviated ManMAP for short.

The objective of the project was to increase the understanding of M&A process by researchers, and in turn also for the practitioners such as those involved in M&A business deals. The focus is on the activities involved in the process as well as on strategic reasoning, and strategic decision making.

The key concept introduced in the book is the ManMAP framework. ManMAP framework is a sort of a theoretical roadmap for M&A activities. The framework has 3 main building blocks, mentioned in the order of appearance in the book as well as in the order of the M&A process timeline. The building blocks are opportunity management, new business creation through M&A, and business continuity. In other words, first part is focused on the actions taken by the company before the deal process is a-go, such as looking for potential targets, and reasoning
the decision to start M&A activities. The second part is focused on the part when M&A activities have been started, such as the deal making phase, and integration designing. The last part focuses solely on business continuity issues, such as risks management.

The M&A process starts off with the creation of a strategic plan for the new business. Investment of resources to M&A activities means that a company has a plan to take the company from its current state to a more desirable future. The focus in the beginning is to make a connection between company’s strategy and new business opportunities. Opportunity management framework guides practitioners in the planning phase. (Hassett, Rantala & Raijkkönen, 2011.)

New business opportunities can be roughly divided to four different categories. They are products, services, processes, and business models. An acquiring company is likely to strengthen its position in one or more of the four categories, in an event when the acquisition is successful. The categories are often interdependent, and planning must be used to avoid wasting resources that are doubled in an M&A event. Additionally, some part of the 4 categories can be a completely new aspect to an acquiring company, such as a new product line - thus creating a whole new strategic opportunity for the company.

On making the decision to acquire company B, company A’s HQ abroad has had a plan to make a company better locally. The opportunities have been evaluated, and company B proved to be a good strategic fit. As neither company is in product sales business, there is no new business in that category. Company A broadened their service offering, now including a strong presence in construction and mining industries. Additionally, the acquisition broadens the company’s geographical coverage. The reason why company B was more successful in those industries than company A is due to differences is the processes. With the acquisition of company B, company A gained important know-how of more agile business processes. The business model eventually stayed unchanged.

3.3 Post-acquisition integration

Post-acquisition integration refers to the combination of the two organizations, the acquirer and the acquired, after the deal has been closed”. The goal of the integration is to try to achieve the synergies potential of which was estimated in the deal making phase, thus realizing the full potential of the integration. Eventually, the focus of the integration execution is supposed to be in line with expected synergies. (Hassett et al. 2011. 109)

There are various types of integration, requiring various degrees of support. The one requiring the least amount of support, or none of it is the scenario of subsidiary bolt-on. In that case
the acquired company fits in naturally within the existing business of the purchaser. This scenario is ubiquitous in the situations where a holding company purchases a company simply to boost their portfolio, thus remaining the majority of acquired company's operations unchanged. Next type of integration requiring some integration support is the functional integration, where companies combine their key functions such as HR, accounting, and legal, but leave the rest of the operating business of the acquired company unchanged. The hardest types of integration involve both functional and operational aspects, as well as full integration, where everything is melded into one. (Whitaker 2012, 10-11)

Integration happens on various levels and fields. It can be broken down into three own integration clusters, which require merging actions. Two of these clusters include physical aspects, such as product lines, physical assets, production systems and such, and procedural aspects including combination of the ERP and other IT systems, legal issues such as creation of a new legal entity and other legislative issues. Third, and perhaps the most delicate as well as critical cluster involves human resources and cultural issues. (Hassett et al. 2011. 110)

When integrating the physical and procedural aspects, a question should be asked about what is needed to serve the motives of the integration and to fulfill the expected synergies. Integration of physical assets is one of the most complex as it is time consuming procedures. Assets can be broken down into common, as well as mutually exclusive assets. Duplicate assets should be removed for cost saving purposes, while exclusive assets make up the ground for actual synergies. Mutual exploitation requires skillful implementation by the management, and there could be increased pressure for increased profitability especially after the asset integration is complete, which adds stress to the mix. (Hassett et al. 2011. 118-119)

As briefly mentioned earlier, the human resource and cultural integration is one of the most critical parts of the integration. While it could often seem that two companies are quite similar culturally, there are always differences even in cases where seems obvious. Same language, same industry, and even the same location does not offer any guarantees that the two cultures could be effortlessly aligned together. The challenge in HR and cultural integration is that they are really difficult to manage, moreover, it tends to be overlooked over issues like operations and accounting. Culture tends to formed subtly over time, and can be merely guided to a certain direction with small notions. (Hassett et al. 2011.)

Realization of synergies is heavily dependent on the success of the management. Integration is immensely complex, and thus it is extremely important to break down the integration into manageable clusters and to plan the execution accordingly. A systematic approach is a must, and therefore it is important to establish an integration management office (IMO) to support the integration. IMO will serve as a base of operations for all integration activities, and it can
also serve as a unique cost-center to capture. IMO is the temporary project management office which is focused on three main tasks. Firstly, it takes action in revision and updating of an integration plan, and keeps track of the progress. Secondly, it manages the integration process, including the issues in the smaller picture. Lastly, it is in charge of communications to both shareholders, as well as employees. A good example of how the integration can be set up in an organization is illustrated in the following model example. (Whitaker 2012, 63)

Integration is a lengthy process, and the most critical time is the first 100 days of the integration. The integration should ideally be complete in 100 days, as that is considered as a time which the employees can bear in uncertainty, before starting to lose the rust in the management. The first 100 days are also the most vulnerable businesswise for other reasons. It is the sweetest time for the competitors to call the existing clients of the company and try to steal them. Clients might perceive your company being in a weaker state, under times of change and be afraid that their business will also be affected by the merging events. (Hassett et al. 2011. 116)

From the start of the integration, it is much harder to set a deadline for the completion of integration. Integration should be approached focusing on setting deadlines on specific tasks based on integration of the clusters. The clear ending point of the integration is often unclear, and even while it could be easier to predict the estimated completion date in operations, it still is almost impossible to predict the completion of soft matters such as cultural and HR. It could take years to employees to feel fully committed to the organization, as it can also take years for the new culture to be finally formed in the company.

3.4 Corporate culture

Integration of two different corporate cultures is a really exciting happening. Unlike other parts of integration, development of culture cannot be controlled, and it can be merely guided to a certain wanted direction, but the outcome really depends on many factors. It is important to understand culture as a phenomenon, as it is a strong, unseen force which guides the actions of individuals in organization.

Culture is very complex issue, and to avoid the common pitfall of oversimplifying it, it should in turn be analyzed on each level to gain a complete understanding of the issue. Culture is very delicate, and it is important to not overlook the important nuances as well.

Corporate culture is created over time in the company, and is eventually guided by the actions and examples of the top management, which is in turn sending the messages to the organization based on company’s values, vision, and strategy. Besides the common corporate culture, there is also numerous amounts of subcultures present in the organization which mix
up the culture. Sub-cultures are born in certain product or service lines, in a single office or unit. A single sub-culture can even be stronger than a corporate culture overall.

There are no two corporate cultures that would be completely alike. There are no guarantees on matching of corporate cultures, not even when they operate in the same country, speak the same language, or act in the same industry. Alignment of two different cultures has 4 ways to go, and it is especially important to focus on the alignment of sub-cultures as well.

In the situations where two companies have to be joined together, such as a merger, there is 4 possible patterns of how things will turn out.

In case of cultural separation, the two cultures will not actually merge at all. This situation is prevalent in big corporations involving many business lines. It is most likely a very bad idea to try to merge cultures operating in different industries forcefully together, and it is likely to be impossible as well. The way of separation can work, if the different cultures are aligned together in a big picture, so that there is a common direction among business lines. This is a viable option, especially if the entities with different cultures have few linkages and interactions in between them.

In the event of cultural domination, one culture will be clearly prevalent and aggressive in implementing their way of doing this. The cultural elements will be introduced to the acquired company, and everything old will be tried at its best to be vanished. Mostly this scenario is in cases where the acquiring company is much bigger in size than the acquired company. This tactic is effective in cases where strong culture is expected to overwhelm the acquired company.

Blending of cultures is optimally the best scenario, especially in scenarios where the two corporate cultures would ideally complement each other. The aim is to blend two cultures to create a new superior culture, taking the best practices from each company. In an event which could be perceived as merger amongst equals, the best practices come evenly from both companies. This is also often done to reinforce the image of merging in an acquisition. Additionally, the management could consider appointing the acquired company’s CEO as the acting CEO of the newly formed organization to counter the cultural resistance of the acquired company.

Lastly, in the most unwanted situation called the conflict resistance or “counter-culture” a sub-culture refuses to accept the cultural change. In these cases, the sub-culture in question is considerably un-aligned with the new culture, new mission, and the new organizations
goals. The employees might intentionally do harm to the company in the process of their resistance by not doing their job well, or do other wrongdoings harming the company's business. Employees perceive themselves as the resistance, and will at worst continue such actions even with disregard of their own job security.

3.5 Business continuity

The aim of business continuity planning is ensure that company's business stays running undisturbed. Ensuring the continuity of business is one of the most vital tasks of companies nowadays. In the event of merger or an acquisition - and especially during the ongoing process of the integration, the people responsible for business continuity in the company are challenged by numerous additional issues which are not normally present in the day-to-day business, as well as the usual issues demanding more attention than usual. (Hassett et al. 2011. 158)

From the HR standpoint the biggest threat is the attrition. Leaving personnel not only creates vacancies which in turn need to be filled, but it also creates a whole array of threats and costs. If the company does a good job recruiting the right people and developing them, but loses them to competitors due to poor retention really lets the rival companies to reap the benefits for free. Additionally, depending on the position of the leaving employee, the company loses intellectual capital, as well as potential client relationships. The costs of employee turnover have been the subject of many studies, and generally the more talented person is in question, the higher the cost of replacement is. While the cost of replacing an unskilled employee is between 1 and 2 times monthly salary, it can easily be 10 times of a monthly salary if it is a senior executive in question. (Evans et al. 2011, 289)

Human capital is one of the key elements in making M&A successful. Study by McKinsey & Company conducted on international M&A's in 2000 identified the top four factors contributing to the success of an acquisition. They were all people related, with retention of key talent proved to be the most critical issue (76% of responding companies). (Goedhart et al. 2017)

People leave for various reasons, and it is the HR department’s task to tackle the issues constantly. The risk of employees leaving is heightened during the merger, and it is the time when all possible risks should be lowered as well as possible. M&A cases often cause uncertainty and restlessness in the employees, and it is the best possible time for headhunters of the rivals to come after the talent.

The most common reasons for employee attrition include compensation, relationship with the manager, work-life balance, development opportunities, and location of the workplace. (Evans et al. 2011. 290)
Compensation matters, and it is the most common reason that employees say when they are leaving. The dissatisfaction towards compensation might not be the only reason for leaving, but there might be also other issues involved. Raising the salaries is thus not the only option to improve retention, if the other areas mentioned later are also lacking. (Evans et al. 2011. 290)

Much of the responsibility in the employee turnover lays on the shoulders of employee’s direct supervisor. Direct supervisor has the responsibility giving the employee feedback, coaching, offering advancement opportunities and giving recognition. Additionally, the direct manager has usually discretion concerning working hours, which might be in some cases against the company’s general HR policy, directly affecting the employees work-life balance. There is a common pitfall especially in the big organizations, where direct supervisor expects of the HR function to handle and take responsibility of the retention matters, where in turn it should be the opposite. As the common saying goes “people don’t leave companies, but they quit bosses”. (Evans et al. 2011. 291)

Work-life balance is an important issue, as satisfaction of employees is linked to the amount of work they are putting in during the week. There are many practices which are aimed to improve this balance, such as involving child-friendly policy and other family involvement aspects in the workplace. Additionally, flexible working hours is a practice which is incorporated in two-thirds of European companies already. Issues with working hours are not that problematic in Finland, due to laws in place which forbid working excessive overtime, and ensuring fair compensation for those extra hours. (Evans et al. 2011. 292)

Development and promotion opportunities are important to almost any employee, and without the capability to advance in workplace, the career driven individual will begin looking for advancement opportunities elsewhere. A clear and transparent plan to career development of employees which have potential and shown positive performance at work helps to deal with reasons for leaving due to career progression. (Evans et al. 2011. 292)

Lastly upon the issue of location. In big clusters where jobs are abundant, such as big cities, the turnover of the employees is generally higher due to availability of choice. It is also easier to headhunt people in these places, as usually the employee does not need to relocate in order to get to the new workplace. On the other hand in more remote places where jobs are more scarce, it is expected to have a smaller turnover of employees as the change of employer might also require a relocation. (Evans et al. 2011. 293)

Besides the usual reasons for attrition, there are special events during which the risk of employees leaving is heightened. M&A activities is one of these events, in which careful atten-
tion has to be give to HR matters to preserve the best talent in the company. Some employees will inevitably feel distress for the fear of job loss, and while it might be the companies incentive to reduce the amount of employees in the company, it should be planned and communicated to employees well beforehand.

A big issue is also the departure of the executives. The reason may be involuntary, or due to reduced job status or transfer to another department. Additionally, the risk of new executive hires leaving the company is also high, as new hires come into organization where they encounter times of organizational change and employee distress. While the pressure on teams might be to keep the current performance, or even improve upon, it places stress on new teams with new executives. (Krug, 2003)

4 Data gathering

Interviews were carried out with the support of the question list. The structure of the interviews was based on a chronological sequence. The purpose was to begin interviews talking about the past, then move into present moment, and lastly focus on the future. The questions were such, that they focused on the following initial themes: corporate culture and its differences, effects of merger to a business, possible risks of the merger. The interviews were investigative by nature, since the researcher has had little factual background information about the topic. Interview questions have been composed to find answers to the research questions, as well as find out new information about underlying issues in the integration.

The main themes that emerged during the merger were:

- Cultural differences and their effects on the new business
- Challenges regarding IT integration
- Effects of integration on personnel
- Effects of integration on the new business and its processes
- Possible risks involved with the merger.

Many questions asked in the interviews were based on the writer's need to map and understand the cultural differences of two companies. While being in the same industry, all interviewees had described the other company's employees, culture, and processes to be quite different from the one they were working in. As it was discovered, the representatives of different companies had strong initial assumptions about the other company's culture, as well as its employees. The views of the employees within the same company on both sides had quite similar thoughts and answers.
4.1 Results & analysis

The findings of the interviews will be presented in this section. The format is such, that one topic will be reviewed at a time, and it will be examined by the views of the representatives of both companies. This section will have summaries of answers, actual quotes of the interviewees, as well as writers own analysis.

One of the positive side effects sought to have an impact on the newly formed business was the influx of company B’s culture in company A. The reason why the management perceived it would be beneficial, was the fact that company B managed to outgrow company A in both size and revenue. The key to success was company B’s more straightforward culture of doing things, and their success has been mainly credited to the entrepreneurial attitude of the company’s employees as a whole.

Company A has not managed to gain market advantage in Finland over the years, and has been outgrown by many local competitors. It was not in the top ten in size amongst its competitors before the merger. When company started doing business in Finland in the mid nineties, its business processes were copied from those abroad. There might have been an issue with processes being incompatible with the Finnish way of doing business.

The findings regarding the cultural issues have not been surprising for most part, as they have been talked and discussed about in the various meetings, coffee tables and unofficial venues in which the researcher has also participated. The confirmation to those assumptions have been confirmed in the interviews, and it became clear that the two companies are indeed, quite different culturally.

Employees of company B perceived company A’s culture as conservative and hierarchial. Some assumptions were that company A was more focused more on white collar business, and serving big clients instead of SME’s. These assumptions were logical, since at Tampere where interviews were conducted, company A has a really low market share compared to company B, and was a relatively unknown competitor.

Company B’s corporate culture was described by own employees as being free of hierarchy, with organizational structure being low in such a way, that you could walk up to the CEO any time you want. Culture was described also as relaxed and very direct - meaning you could take matters in your own hands if you saw fit. Entrepreneurism is strong, and it could be perceived in a way that the company allows liberties to employees to take many matters in their own hands.

Company A’s employees saw company B as a company which had a laid-back, swiftly acting,
and an entrepreneurial culture. Company B gained praise for their ability to serve customers quickly and efficiently, not wasting much time on bureaucratic procedures. However, company B’s way of doing business was described as a bit reckless, without assurance for quality due to lack of clear guidelines for processes.

Interviewee’s of company A saw the shortcoming of their own company in its slower, and bureaucratic approach to business, which is often hindered by the group’s requirements of diligences in the process. It was mentioned that the company is slowly trying to keep up with the rest of the world in terms of innovation and modernization. Company A’s processes rely heavily on those tested and used in the other parts of the world where it is present.

“...It’s probably conservative and hierachical (company A)... A big company which probably has a lot of internal decision-makers, I believe decision making goes quite vertically so, that you can not just call the biggest boss... You have to go by the process.” (Company B interviewee 1)

"My perception of company B lays on the feedback ive got from clients and candidates... Its not always been positive. I have a vision of a fast and agile company, who can really cut some corners in the process - while we on the other hand are quite binded by the process... company B acts just like it is required by situation, and fast. They treat clients as friends, take them to dinner, to hockey games... They really take care of their clients, I cant recall when we have done it in the same manner" (Company A interviewee 1)

A big company merger always brings a lot of emotions within company personnel on both sides - both positive and negative. This area has been mainly unexplored by researcher before the interviews began, and it turned out that the results of questions regaring the felt feelings have been mainly in line with the theory supporting such situations.

Most interviewees had some concerns regarding their own future, as well as the change withing the colleague in general. Concerns have raised on whether own job description will change, or will there be any layoffs concerning the employees. The trend that emerged, was that many employees felt a bit of a shock and serious concern for the future, while it has after the news calmed down as the information came downwards from the upper-echelons of the company.

As people think logically, there have been some assumptions made by employees in some departments, namely payroll and executives. Logical reasoning was behind the assumption of the employees, that the company will be laying off some of the personnel in both departments due to them being an easy target for cost savings due to existence of duplicates.
“... It was probably mostly uncertainty, on whether the work... or my work here will continue. What will I be doing, what will my role be in the new organization. Most of my concerns were personal.” (Company A interviewee 2)

“...I didn't have any personal concerns. It is just work, and in case I get laid off I will eventually find new work. Some folks have been concerned in the payroll department, whether someone will be all laid-off, or whether payroll will be completely outsourced” (Company B Interviewee 2)

Interviews have been conducted nearly after one hundred days since the merger has been announced, and the current situation at the time has been seen in more positive light. Praise has been given to the executives for making sure that employees are kept up to date on the progression of the integration. The negative side has been such, that employees perceived that things are happening way to slowly in the practical side of things.

Especially the way of doing things as a one big company has not been so fast as the employees would have wished for. The biggest drawback has definitely been the IT integration, namely the HRM systems. Different HRM systems and processes have not allowed the company to reap the full benefits. All of the interviewees said mentioned that IT challenges should be the first on the list to figure out.

“...The common HRM system. I know it will take time to implement one which is really working such, that everyone can look up candidates, and do client related things from one system.” (Company B interviewee 2)

” Let’s say... well most of the problems i see are IT related, we have yet to utilize both of the systems efficiently at the same time” (Company A interviewee 2)

The two companies have had somewhat different business processes and ways work is organized. With the merger, the business processes received an indirect upgrade straight away with the possibilities opened by the other brand.

Interviewees of company  B believe that with the help of brand power and international influence of company A, more doors could be opened to prospecting clients which have not been available for the local company previously. Additionally, employees of company  B saw the potential of the two HRM systems despite the challenges, as well as the benefits of moving offices together to increase productivity.
The biggest benefit for the business processes for company A as perceived by employees is the business know-how and agility of the local company B. With the rapid growth, the personnel turnover has stayed rather minimal in company B. Therefore many employees have been in the company since its founding in 2009, and have gathered contacts and have vast experience on what works best for the company to initiate growth. That growth came from company B’s way of conducting business in a more agile manner than what it is in its acquirer. Employees of company A wish that some of that business aptitude will rub-off to the new organization.

“...It’s the market knowledge. We now know better also where our competitors are, and where to focus. Company A benefits from that. Company B has operated here for the longest, and knows the market well, while at Company A personnel has changed many times in the process. We have gained a lot of business know-how, and it is our biggest benefit in the beginning.” (Company A interviewee 2)

There have been mentions of various risks that have raised concerns among the interviewees. Biggest issue perceived by 3 out of 4 interviewees is the risk of employees leaving the company. Reasons for possible attrition have been mentioned to be involved with lack of clarity of the persons role in the new organization, stress of being possibly laid-off, or feeling of not belonging in the new organization and its culture. The general uncertainty regarding the merger and the change it brings is also a factor which can be interpreted from the interviewees as such that brings a lot of worry

“The upper management should have conversations with employees to let them know whether everything is ok or not, and not just move forward and assume that everyone will follow... not development discussion, but plain conversations with employees on the current situation. Biggest risk is the continuation of the confusion and employees leaving...” (Company A interviewee 2)

5 Conclusions

Working on this thesis revealed a factor which was surprisingly important. The way that employees’ perceive the events happening in the company they are working for affects their mindset and commitment to their work by a large degree. The biggest issue overall found out during the interviews was the importance of managements’ communication to the organization about the ongoing events.

Biggest feeling of employees regarding most of the matter was uncertainty. All of the interviewees felt that they were in a state where they were not aware of the ongoing events in full, which lead to speculation and rumors around the company. During the interviewees it
was found out that the communication from the management could have been much better. Clarity in the communication of the future events of the integration could have lessened the uncertain state of mind of employees.

While uncertainty towards business processes, future way of work, or the culture of the new organization proved to be on the minds of employees, it was the worry of losing their jobs which emerged as the biggest issue of the employees. With the lack of personal communication towards individuals, it was natural for them using the common knowledge about M&A activities to speculate about lay-offs in their respectable departments. New organization involving two companies usually involves restructuring of the organization matrix.

From the managements’ perspective, this situation could have been handled much better, as it is years after the M&A activities when the attrition levels peak. A study by Jeffrey A. Krug from HBR shows the statistics of attrition among executives after the merger. Making actions to ensure retaining of the top talent after the merger should be on the top of the list in the priorities. This applies on both employees, as well as executives. One of the interviewees in this study was an executive, and the person’s interview had no deviation with the other interviewees on his concerns. (Christensen, Alton, Rising & Waldeck, 2011)

Whether or not the structure of the new organization and the need for layoffs was already known at the moment of announcing the merger, still there should have been better communication about the situation regarding employees work situation. There has been big information gaps on this issue. A phenomena which also was observed at one point, was that despite management’s message to the employees at a certain time of integration about the lack of future layoffs, the employees had hard time to believe that it is true. What remains unclear is whether the uncertainty about layoffs was caused by initial lack of communication or also because other issues. This issue remains unanswered, and requires further study.

The culture of two companies indeed proved to be quite different despite two companies operating in the same industry. An interesting finding was that employees of company A described their own company in a similar way that employees of company B perceived that it is, and also vice-versa. A conclusion of this could be made that employees of both companies were quite well aware of their own company’s strengths and weaknesses, as well as those to whom they are going to be merging with.

While there has been uncertainty in the employees minds, a certain sense of optimism could still be felt about the merger. Employees of company A felt that the influx of company B would bring more entrepreneurial attitude to the company, as well as break some of the stiff hierarchial structure of the company. Employees of company B on the other hand hoped that
the influence of a global company would bring some order into a company which was even described to be as “wild west” among some employees. Additionally it was mentioned that influence of a global company would enable access to bigger clients which were previously unavailable due to relatively small sized operations on a global scale.

All of the interviewees mentioned their concerns regarding common IT systems - or lack thereof. At the point of the interviews the integration has been ongoing for around one hundred days, and companies were still using different systems for human resources management, client portfolio management, as well as payroll. Initially the companies were bolted on together with plans to integrate IT systems in the future. The employees of the company felt that lack of common systems severely hurts business processes.

IT system integration is a lengthy process, which does not happen in a short period of time. There are certainly short term drawbacks which limit the capability of the new organization to some extent. The full effects of the IT integration were studied to a very limited extent, and further research on the matter is required to make any plausible conclusions on this matter.

Answering the research question on what risks employees perceive in the merger brought up a multitude of questions and revealed an immense need for further research. M&A activities are really complex and diverse in nature. Each theme which was addressed in this thesis could have its own study with in-depth facts and further theoretical background on the subject. In order to have more concise and elaborate answers to the primary research question, there should be further studies on the topics.
References

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