Improving M&A Performance Through Post-merger Integration

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Abstract: Despite frequently having unsatisfactory results, mergers and acquisitions are nonetheless common. The success of M&As depends heavily on post-merger integration, although many issues surrounding their execution remain unresolved. This paper explores post-merger integration in terms of its key areas – communication, sociocultural integration, and the acquiring company’s experience and learning.

Keywords: Mergers & acquisitions, Post-merger integration, Synergies.

1. Introduction

Mergers and acquisitions (M&A) are an important part of a company's organizational strategy, and is a common measure that numerous enterprises take to expand rapidly. It enables companies to rapidly attain new technologies, enter new geographic markets, and create economies of scale (Graebner et al., 2017). Though there exist significant differences between merger and acquisition, the distinctions are often obscure. In general, M&A refers to the union or consolidation of companies. However, according to Moeller and Schlingemann (2005), despite the popularity of M&A, its failure rate is up to 83%, which means most of the transactions are not achieving the desired outcome. Larsson and Finkelstein (1999) argue that for M&A, it is probably not enough to have potential synergies that are potential to be achieved by companies working together; process changes are also needed to realize those synergies. Post-merger integration (PMI), a management tool, which aims to materialize the synergies, determines the ultimate success or failure of a merger or acquisition, and it would seem to be an essential solution to improve the unsatisfactory situation of M&A. This essay focuses on the key areas of PMI which might be effective to improve M&A performance. First, the definition of PMI will be elucidated, followed by one of its key areas, communication. Then, this essay will analyze sociocultural integration in terms of human and cultural aspects of PMI. Moreover, the acquiring company’s experience and learning will also be discussed.

2. Main Body

Dao and Bauer (2021) point out that the disappointing result of M&A may be attributable to poor human integration, which can be improved by intensification of PMI. PMI refers to management actions at the integration stage performed to realign two previously separate organizations in order to realize synergies that neither part could achieve on its own. It is an interactive process in which employees of acquiring and acquired companies collaborate in the transfer of capabilities. Moreover, the capacity to resolve conflicts and human resource issues is indispensable for the integration following M&A (Weber and Tarba, 2010).

Such ability contains communication, which connects the merged organization’s strategy with the willingness of employees to perform. PMI would seem to be effective if there is regular communication throughout the integration process (Bastien, 1987). Meanwhile, in practice, Reus and Lamont (2009) have found a positive relationship between communication and M&A performance. Specifically, communication in PMI involves two main areas. One is about alleviating employees’ mental stress and inspiring them to work. Another is about facilitating the transfer of capabilities between the acquirer and target. The forms of communication can be diverse, such as face-to-face communication, written memos, phone conversations, visits, meetings, and e-mail.

In terms of inspiring employees, it is necessary to timely announce the acquisition and explain the reason for this transaction to employees. Since in general, corporate M&A is confidential, and it is only known to executives. On the contrary, employees are probably ignorant of these company decisions, and the late dissemination of information or an absence of reliable information can lead to employee uncertainty (Napier, 1989). As said by Weber and Tarba (2010), “It is often uncertainty rather than change that is stressful.” In addition, it is suggested that managers should communicate with employees on issues of particular concern to them, such as changes in job specifications and remuneration. In this way, employees can be reassured and therefore clear about what is required to achieve their personal goals and, in turn, the goals of the organization (Bresman et al., 1999). Take Nordea as an example. Nordea, the leading bank in the Nordic and Baltic region, is the result of the M&A of four banks from Denmark, Finland, Sweden and Norway. Letters were sent to all employees on the first day of the announcement of the deal, informing them about the merger and detailing information on the post-merger integration process. Furthermore, all bank staff received a copy of a booklet called ‘Making It Possible’ after the merger. This handbook was printed in four languages, which purpose is to tell employees how to perform and get access to markets quickly (Osarenkho and Hyder, 2015). These timely and effective communications fostered the rapid integration of Nordea, thus laying a solid foundation for its significant improvement in M&A performance. Overall, communication is associated with stabilization of the unrest and employees’ positive reactions toward the merger (Bastien, 1987).

Intensive and effective communication also plays an
essential role in the transfer of capabilities. Bresman et al. (1999) indicate that obtaining access to the acquired company's capabilities has been a common reason for M&A. These capabilities might include technology, human resources, management skills, and marketing skills. Capabilities transfer does not happen statically, instead, it is a continuous dynamic learning process, in which the capabilities should be disseminated through adequate communication between the provider and the recipient. For the provider, it can hold technical training or send experts to guide the recipient company. For the recipient, it needs to make staff to be prepared for the transfer and take the initiative in inquiring about the transferred capabilities. The transfer of technology following Geely's acquisition of Volvo is a good example. Geely and Volvo constructed the China Europe Vehicle Technology Center after the acquisition, and there are two centers which are respectively located in Volvo's home city of Gothenburg and Geely’s home city of Hangzhou. It is the two-way communication between technical staff in Sweden and China that facilitates their technology transfer and development of new models. Through the co-development, Lynk & Co, the new Chinese-Swedish automobile brand founded in 2016, has had over 27,000 users by the end of 2021 (Lynk & Co, 2021). In general, communication is crucially important to PMI, both for inspiring employees and for facilitating the transfer of capabilities.

Turning to the issue of sociocultural integration, this is another crucial part of PMI. It is suggested that the merged company should alleviate the negative effects of cultural differences and form a shared organizational culture through deep-level cultural learning and social control. In order to make the most of the human potential in the combination to maximize synergies, a shared organizational culture is needed to provide an environment for employees from the combining companies to cooperate to make necessary changes. It has to be formed through integrating the beliefs and values of previously independent companies (Larsson and Lubatkin, 2001). However, the sociocultural integration process is challenging because cultural differences are almost always present. Due to the differences in industry, region and cultural backgrounds, the organizational cultures of different companies show considerable variation. Unfortunately, these cultural differences often have a negative impact on cooperation between the combining companies and integration of their values, thus causing underperformance. For instance, they may limit communication across merging entities (Reus and Lamont, 2009) and result in employee rejection of employees of the combining partner. Deep-level cultural learning would appear to be the basis for addressing this issue and promoting cultural integration.

Learning is a prerequisite for integration. Since codes of conduct within organizations that have a profound impact may be often internal rather than superficial, deep-level cultural learning involves not only learning how combining partner functions, but the root cause for the way it functions (Schweiger and Goulet, 2005). Both the acquirer and target need to understand and appreciate the culture and valued beliefs of a firm by another. In this way, employees will develop partner cultural awareness and have a greater acceptance of the partner’s view. Contributing to building cultural identity, deep-level cultural learning enables employees to prepare themselves to be patient rather than aggressive when facing culture-related issues. On the basis of deep-level cultural learning, upon which work forces of the acquiring and the acquired companies tend to identify with each other's ways of working and managing, rather than rejecting or resisting, social control will further foster the formation of a jointly determined culture.

Social control contains activities such as cross-visits and celebrations, through which employees will create a shared organizational culture naturally regardless of cultural differences (Larsson and Lubatkin, 2001). However, Berry (1980) points out that in M&A, members of one culture often try to dominate members of another culture through formal control. That is, the acquirer may impose its values and beliefs on the acquired company by renaming it and changing its internal governance structure, corporate management and the way it operates. For the reason that formal control disregards the legitimacy of the culture of the acquired company and treats the acquired firm as the conquered, it often meets with resistance and fails to achieve cultural integration (Cartwright and Cooper 1992). Hence, formal control is not encouraged whereas non-authoritative, informal social controls that respect the acquired firm's legitimate beliefs and treat the acquired firm as a partner ought to be adopted by the acquirer (Ghoshal and Nohria, 1989).

The activities of social controls gather all employees of the merged organization together, providing opportunities for them to establish in-depth communication regarding cultural and work aspects and develop common language and mutual consideration. In terms of deep-cultural level learning and social control, Alibaba's acquisition of Yahoo China is an outstanding example. In the first month of the acquisition, Alibaba organized a special integration team that contains members from all departments to look into Yahoo's management system and corporate culture. Also, it held a big party for Alibaba and Yahoo staff to attend, which facilitated their cultural integration to a certain extent, especially under the situation where staff of Yahoo China have already been much Americanized (Zhang, 2009). In short, it could be argued that social control will result in more positive staff attitude and enhanced cultural integration, and ultimately, promote synergies.

Through communication and sociocultural integration, organizations appear to improve their practices in PMI, thereby improving human integration. Yet as for companies which have experienced M&A before, it is not enough to take the measures described above for PMI. They should also learn from prior experience and arrange for dedicated staff to focus on their M&A areas. Such learning may take the form of codifying PMI manuals to record useful experiences and creating a dedicated M&A function. Zollo and Singh (2004) believed that though M&A performance is not directly influenced by acquirer experience, acquirers that codify their experiences in written form fare better than those that do not. By the same token, the dedicated M&A function makes the integration process more effective and enhances M&A performance. For instance, in the successful case of Lenovo's acquisition of IBM, Lenovo established a cultural integration department. Personnel in this department went to branch offices of IBM which are located worldwide to conduct staff questionnaires and gather opinions. Having analyzed the information collected, the department combined IBM's corporate culture characteristics with those of Lenovo to formulate a cultural integration plan for the acquisition. Yet, companies' learning can be influenced by many other factors such as corporate age, the timing of prior acquisitions, so it
might not produce immediate effect (Graebner et al., 2017). Overall, acquiring companies’ learning is also considered of great significance for developing integration capabilities and improving M&A performance.

3. Conclusion

In conclusion, this essay focuses on improving M&A performance through post-merger integration (PMI), and it argues that process change in PMI should be made to realize synergies between the acquiring and target companies. Initiatives to make these changes include communication, sociocultural integration and learning. First, communication which is throughout the PMI process has been discussed. As indicated, having extensive and intensive communication is essential, both for motivating employees and for promoting the transfer of capabilities. Then, this essay suggests taking advantage of sociocultural integration to improve poor human integration, which leads to the disappointing result of M&A. Due to the presence of cultural differences, the importance of deep-level cultural learning has been highlighted. It is also only on the basis of deep-level cultural learning that informal social control can be effectively exercised, thus fostering the formation of shared organizational culture and better realizing synergies. Lastly, the acquiring company’s experience and learning is also meaningful for those companies that have experienced M&A before to secure self-improvement. Expressed briefly, these key areas of PMI deserve major consideration because human-related aspects are more important than financial and strategic factors in M&A success, and they will probably reduce M&A failure rate (Booz Hamilton, 1985). Finally, this essay notes that future research could challenge and question previous conceptualizations. There may be new discoveries to be made. For example, recent studies have found how cultural differences would seem to be considered not just as the cause of inefficient cooperation, but also as the sources of value creation, and how the way organizations perceive these differences are regarded as part of the PMI dynamics (Vaara et al., 2014).

References


