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Global Acquisitions: Strategic Integration and the Human Factor by Stan Lees, Palgrave McMillan, New York, 2003, pp.275, US $ 45

Mergers and acquisitions (M&As), joint ventures (JVs) and other forms of strategic alliances have recorded a tremendous growth in recent years. Acquisitions have become a generic strategy for many companies. Today 50 large multi-nationals, as an outcome of multiple acquisitions, drive the global economy and control around 25 per cent of total U.S. corporate assets. There are life cycle reasons behind acquisitions to seek specialised partner for growth, achieve expertise of a large firm diversification, *etc*. However, numerous studies across an enormous range of performance parameters, industries and countries show that more than 50 per cent of all M&As, JVs and alliances have failed. More disturbingly, the studies indicate that the rate of failure has not declined over the previous three decades. In this context, the book by Stan Lees assumes importance as it deals with the issues relating to personnel management and national culture, which have recently been held responsible for the corporate merger failures by many studies.

In a pre-M&A deal process, special emphasis is often placed on the strategic and financial goals, while the psychological, cultural and social implications do not receive much attention. The purpose of the book is to delineate the dynamics of socio-cultural processes inherent in global M&As and to discuss their implications for the management of post M&A situation. The book provides a selected blend of theory and practice, research and experience woven together to provide some essential frameworks to guide the integration of mergers and acquisitions. It addresses the issue of how best to approach and manage the merger of firms to achieve desired goals.

International experience shows that majority of the merger cases have failed to deliver the full value added as per the promises. In fact, in most cases, M&As have destroyed shareholders' value than add to it. These have been found applicable for small as well as large MNCs.

Generally, takeovers are supposed to improve economic efficiency and protect investors' interest but due to wide dispersal of share holding, in some cases, corporate executives have used their broad discretion benefiting their own interests than those of the small investors. A very few merged companies have performed as per the theoretical predictions of high returns, higher efficiency, synergies and capability transfers.

A range of studies has shown a consistent pattern of poor long run performance in both acquiring firm and target firm. The acquisition history points towards harder efforts needed for retaining the market share than to buy, managing and developing know how after buying it, and turning a competitor into a collaborator, *etc*. These problems are equally faced in the case of horizontal and conglomerate mergers. The reasons behind value destruction may be flawed strategy, business life cycle reasons or fundamental weakness in both the theory and practice. Weak strategy may be on account of decisions taken in isolation by the top management without taking into confidence the senior executives who have to carry out the strategies.

The author emphasises upon the ability to integrate acquisition and alliances speedily and effectively as a competitive necessity, as size and barriers to entry can no longer be the only tools for the survival strategy. The small firms can beat even the giants and gain some advantageous position by showing greater integrating capabilities. In case of cross-border mergers, human factor extends into national culture and includes the task of interfacing very different management styles and work place expectations in different countries. Therefore, financial, commercial and economic considerations are necessary but not sufficient condition, for a successful merger. Human and organisational conditions are rarely emphasised, which in fact are necessary for a successful merger.

The author provides different measures to evaluate the degree of success of M&As *viz.*, financial measures, economic measures, strategic measures, executive measures and regulatory measures. These measures assess different aspects in the post merger phase. The often raised question, "whether takeovers bring benefits to shareholders", has been concluded negatively on the basis of a survey of studies based on thousands of takeovers across the world, and such poor post-acquisition performance has been observed mainly during the decades of 1980s and 1990s. Similarly, not a single large-scale investigation has concluded that takeover and mergers are profitable and supports the view that size does not matter much. The reason cited is that economies of scale are accompanied by human diseconomies, which are generally ignored before the merger deals.

The author accepts that both economic theory and finance theory are inadequate to predict accurately the prior conditions necessary for a successful acquisition at the firm level. Instead, theory of organisation and managerial behaviour can better explain the inefficiencies of size and under-performance in the post acquisition period. The strategy, considered as a critical variable affecting acquisition performance, is found to have a loose relationship with performance and varies from case to case. The historical record reveals that till 1950, M&As were mainly of horizontal and vertical nature and then subsequently, the strategy was to achieve conglomerate bigness and diversification. Although, strategy thinking changed across the periods but acquisition performance did not. So what really needed is not the strategy but the capability to make a choice strategy happen and deliver the desired outcome.

The post-merger value destruction of the companies has been attributed to twelve factors relating to managerial mindset, *i.e.*, how managers perceive, how managers interpret, how managers think and how do they act in an acquisition context. In most cases, lack of pre-deal organisational audit and tracer thinking, over emphasis on forecasting models to arrive at real value of acquisition and synergy, political and personal motives of managers, lack of industry knowledge, and naive behaviour lead to value destruction. Top-down strategy has got to be matched with a detailed bottom-up business plan of how the acquisition is to generate value. This is the only way, managers down the line can know what they are expected to deliver.

Similarly, for a successful acquisition deal, potential gains depend upon a long-term interaction between markets and hierarchies. Every acquisition deal needs a commercial manager and an integration manager who need to work hand in hand, right from the beginning of deals. Another aspect generally ignored before the deal is the proper auditing of the inner organisational working. This requires a strategic mindset through which acquisitions are viewed. This aspect needs to be focussed upon as dishonest presentations are very common in the post-acquisition period. The merged companies should have the clear crystal idea about the key responsibility holders before negotiations.

Another factor responsible for the poor post-merger performance described in the book is attempt by acquirer to standardise the functions of the merged entity into its own format irrespective of the strategic logic, which may bring comfort for the acquirer. The author provides six possible models to integrate the structure after the M&A deals. The decision to adopt a model through cost-benefit analysis is quite crucial as these have their own gains and losses. As wrong choice often turns synergies illusory or trivial and acquirer must focus upon removal of barriers to synergy.

One part of the book has been exclusively devoted to discuss human resource strategy in M&As after deals. The response of employees of the acquired firm is often seen in the form of shock, rivalry among the managers of both entities, fear of job loss leading to stress, brain drain and building up of different scenarios by those at the low level of management left with the information vacuum. Therefore, the author emphasises the need for a co-ordinated and integrated effort on many fronts, not only at top management level, but also at middle and low levels of management too, particularly in the case of hostile bids to achieve best of the human resources. The author suggests an integration by adopting coherent programme of action, generating a sense of commitment and providing flexibility of thought.

The author emphasises on the three stages of commitment building. First is commitment at the top level during negotiations, *i.e*., chemistry at the top level with common philosophy and honest discussion. The second stage is reducing fear and securing commitment among the mangers and staff on both sides before the deal, which is rather difficult as compared to commitment at the top due to involvement and participation of a large number of people. The third stage is to enhance the sense of commitment in the post-merger period and avoid drifting of good people by giving them opportunity of being heard seriously. Otherwise, the author warns that behaviour related problems might bedevil integration.

The author also lists factors important for shaping the environment congenial for implementation of M&As. These are communications of honorable rhetoric, (*i.e.*, sticking to the promises), clear vision, winning the commitment of the workers, enhancing credibility and respect among the acquired firm's staff, perceived business benefits for seller, devising of incentives strategy based on performance, and proper interface at managerial level. In the absence of these factors, successful and smoother implementation of M&As cannot be ensured.

The scope of merger is generally downgraded when cultures of two organisations are found to be incompatible. Although it is not possible to separate out natural culture from organisational climate (culture), it has to be managed through engineering the norms of the work place in the interest of strategy and the commercial imperative. A cross- cultural comparisons can give real role model firms whose practices can be observed and aspired. Managing national culture in two autonomous organisations after a global merger is largely an issue relating to personnel management, which can be handled by selecting key boundary positions who can mentally budge the differences and build cohesive teams around them. Otherwise, in case of two different firms merging structurally have to design new systems and practices, which are acceptable to both sides, *i.e.*, within parameters legitimated by two different national cultures. To reinforce cultural change, leadership and communication are essential and it has to start essentially from the top. Human resources practices if focused towards integration and acquisition goals can immensely contribute to cultural change. These core practices are of selection, appraisal, reward and development. These human resources practices can bring two cultures closer and together. There is such a diversity of national difference in each of the global deals that there can be no general presumption to ensure success of the deals. In short, the common problem among the M&A failures is neglect of human factor but the solution varies across the countries depending upon cultural, political and economic variability.

The issue raised by the author is well recognised as an ILO Report also noted that inspite of the vast scale of M&A activities during the last decade, two-thirds of M&As failed to achieve their objectives, despite the often massive job losses and organisational restructuring they entailed. The Report also cited reduced job security, anxiety and stress as the factors, which can impinge on the performance of companies after M&A. Therefore, the main point emerged from the ILO Report is neglect of the human factor as a frequent cause of failure of M&As. Despite the historical record of reported failures of M&As on several fronts, a large number of M&As have taken place in the recent decades. This paradox remains unanswered by the author.

Although the book attributes much of the foundering of M&A expectations to shortcomings in dealing with the human resource fallout of redundancies, which may seriously undermine operational capabilities and employees morale, but the message by the author to mitigate and manage the human resource crises in a better way is not very explicit but general. The author rightly touches upon an important but often ignored issue of culture. A KPMG study also confirmed that M&A deals are 26 per cent more likely to be less successful if, cultural issues are not attended properly particularly in the case of global M&As. The intention of the author seems to be to put an emphasis on increased social dialogue between top management and the staff of both the merged firms throughout the M&A process to dispel uncertainty as merger implementation involves sensitive management and personal issues with far reaching impact on workers' rights and their vision about the organisation. The workers' involvement can decisively contribute to successful achievement of the merger's objectives. The author seems to believe that mergers are not just about balance-sheets; cash flows and marketing synergies; these are about the people making the synergy real and this is what the book is all about.

Rajeev Jain*

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* Rajeev Jain is Research Officer in the Department of Economic Analysis and Policy of the Bank.