NON-FINANCIAL FACTORS THAT INFLUENCE THE SUCCESS OF A MERGER TRANSACTION

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Abstract: Nowadays, the performance of mergers is a subject of great debates, being quite difficult to establish if these transactions will end as predicted. There are numerous cases in which studies made prior the merger, based only on financial data, show great chances of success, but, in the end, those transactions fail to accomplish the expected results. This frequently happens because some non-financial factors are overlooked, compromising the entire merger process. Some of these elements are the organizational culture and the internal policies of the merging companies, the human resources involved, and the managing or leadership style. This paper aims to highlight the most important non-financial factors that influence the post-merger integration success and to synthesize the ways in which these elements will enhance the financial and non-financial performance of the company resulting from a merger or acquisition.

Keywords: merger, integration, human resources, organizational culture, non-financial performance

Introduction

The number of mergers and acquisitions is constantly growing due to the popularity of these reorganizing operations in the business world. Although very popular, these transactions require a great involvement and rigorous management, in order to successfully end. Studies conducted at the European and international level had shown a significant number of mergers that turned out to be a fiasco, due to bad planning in the period prior the merger and after its completion, in the integration phase.

There are some very important factors, besides the financial aspects, that must be taken into account both in the planning phase and in the integration period. This paper will try to highlight the importance of some non-financial factors that must be considered when planning a merger and its integration, the most important ones being directly correlated with the organizational culture, management style and human resources. All these factors and their proper integration and adaptation will materialize in a non-financial performance. The non-financial performance of a merger can be assessed based on the degree of innovation and adaptation to the market requirements, the company’s popularity among customers, the general reputation of the company, etc.(Meglio and Risberg, 2010). In time, this non-financial performance will contribute to achieving better financial results.

The importance of an experienced manager and a good leadership

In the integration phase following the merger, both the absorbed and the absorbing companies have to make efforts and compromises in order to adjust their activity and their cultures.

At this stage, a great role is assigned to the managers involved in mergers, because they act and speak in the name of the companies prior the merger, and are the ones who make the first steps towards the integration, after the legal completion of the merger. In fact, the interaction between representatives of both parties might be considered the first way of communication between the merging companies. This is why the persons from the top and middle management are in charge with setting an example for all the employees of the combined companies, having to show confidence in the success of the merger, and also patience when it comes to dealing with new or critical situations.

The post-merger integration task should fall into the responsibility of a manager with previous experience in this field. Otherwise, the company should contract external consultants in order to determine the best solution for a quick and effective integration. Human resources specialists consider that mergers are only for experienced professionals, not amateurs, the stage of planning and integrating the companies being one in which the weaknesses of a young manager would be easily revealed (Tower Perrin Survey, 2003).

A very important thing the management team must take into account and analyse is the main purpose of the merger. Different reasons for mergers may determine different approaches when it comes to the integration phase. For example, a company that absorbed another one only with the purpose of having direct access to its intellectual property may not need to give much attention to the integration phase. However, if the main goal of the merger was an increase of the market share, the integration process must be well planned and potential cultural differences or conflicts that might arise must be seriously considered.

When asked about the most challenging tasks regarding the post-merger integration, the surveyed managers considered the cultural integration as the most difficult thing to do, followed by the necessity of completing the merger in the planned period. On the third place came the effective integration of the products and service portfolios, another difficult task without a good understanding of the production process and of the supply chain (Bearing Point Management& Technology Consultants).

Specialists from the M&A field summarized the main responsibilities a leader should have, in order to ensure the successful completion of a merger operation (Able, 2007):

- create an enthusiastic and positive business environment and a disciplined work environment;
- inspire employees, with a positive attitude, confidence and commitment, supporting them in any difficult situation;
- develop a secured work environment that inspires community, trust, coherence and which determines the employees to remain focused on their daily activities.

Before trying to influence the subordinates and involve in the integration process, managers must first understand and clarify the exact principles, rules and values that will be applied in the newly created firm. Only by a good understanding of all these elements, a leader can choose the adequate strategies and practices to be used in order to fulfil the long-term goals.

After the proper understanding of the approach that should be used in the newly-created company, managers must try to transfer these ideas, values and policies to all the employees, by direct communication, and also through the power of positive and negative examples from the past or from other companies (Aguilera et. al, 2006).

In other words, managers, especially the ones from the absorbing company, must make all the efforts in order to build a new strong and united team, successfully integrating the employees from the absorbed company into the new business (Harrison and Farrell, 2008).

In addition to the responsibilities and organizational culture knowledge mentioned earlier, it is obvious that a manager will need to have a clear image regarding the financial situation of the merging companies, especially of the acquiring one, in order to plan and develop proper strategies regarding investments, activity development, cost planning and so on.

It must also be highlighted that even the senior managers and the CEO must personally participate in the integration process, their presence being a source of security, trust and positive attitude for the employees. These highly important persons will be the ones to ensure the employees from both of the absorbed and absorbing company that everything is under control, and that they should not worry about their position in the company (Towers Perrin, 2003, p.5).

When it comes to leaders and leadership, it has been identified a strong connexion between the leadership style of top managers and the success of mergers. When analysing which leadership style is more adequate for the integration phase, researchers consider that a socialized charismatic approach, which will lead to a collaborative vision-formation, is more suitable rather than the personalized charismatic leaders that might be using more rough measures, that would create a hostile work-environment, especially for the absorbed team (Waldman and Javidan, 2009).

In delicate situations, such as integrating different teams and cultures, socialized charismatic leaders will adopt strategies in order to serve the best interests of the company and also to satisfy employees. Socialized charisma is considered non-exploitive and more focused on subordinates' needs. On the opposite side, a personalized charismatic leader typically considered authoritarian and even narcissistic, might be focused more on achieving its personal interests, neglecting the needs of its team and being sometimes too exploitative (Choi, 2006).

Another interesting fact regarding the connection between leaders and the success of mergers is that studies identified a higher rate of success in the transactions where leaders from the acquired or absorbed companies were kept in the newly-created team (Calori, et.al, 1997).

When the managers from both of the merging companies meet and need to work together to get through the integration phase, some differences of view and perceptions might arise. The compatibility of the leadership styles when the management team is created from both of the united teams is primordial, a well-know and highly mentioned example of unsuccessful merger being Daimler-Chrysler. Its below expectations results were partially assigned to cultural and leadership differences (Bearing Point Publication, p.4)

All these aspects regarding managers and their leading manner will directly influence the success of the business after the merger. It is natural to have an increased work productivity and no major problems such as mass resignations, when using a proper management style, that combines fulfilling the objectives set for the newly company with a high level of respect and care for the employees. Problems such as strikes, gaps in production, failures in the daily activity, noncompliance with the terms and the timesheet, that will directly increase costs and reduce profit, can be easily avoided. This happens when having a well-trained and experienced manager, who knows its business very well, uses the right ways to motivate employees and takes all the measures needed to connect all the departments of the company and persons from both the old and the new company. This way the manager will create a performing and efficient system that will benefit from the knowledge and expertise of both merged companies, capitalizing their stronger points and transforming weaknesses into advantages.

The Human Resources department role

The relationship between human resources practices and the performance of mergers and acquisitions is another highly studied and popular theme. A faster and more efficient integration is considered to be accomplished when enhanced human resources practices are used. Among these there must be mentioned the continuous communication with employees, trainings and also a proper combination of HR practices from both of the merged teams. In other words, the success key is to obtain synergies through a proper resource sharing and by implementing a knowledge-based view, which constantly develops and integrates knowledge (Iankova, 2013)

Although it could have a great role in integrating the team and constructing a positive image of the newly created work environment, there are many cases, of small mergers, when companies do not have a HR representative charged with completing the specific tasks related to the merger. There are also situations in which the merging companies do not even have a HR department or even a HR employee. In this case, the entire responsibility of supporting the newly created team and helping it function properly falls on the shoulders of the manager.

A global online survey conducted by Towers Perrin and the Economist Intelligence Unit, regarding the role of the human capital in M&A success has shown that a very small number of companies dedicated HR resources especially for the merger transaction. Furthermore, from those that did, only in some cases the HR department intervened in the planning stage. (Tower Perrin Survey,2003). Involving a HR specialist in the planning phase, prior the completion of the merger would have been very useful and efficient. A HR specialist could have identified which is the proper policy when forming the new team. He would have been able to evaluate employees from both of the companies and to determine which are indeed useful for the new business. In addition, he could have early anticipated a possible need of personnel, this way avoiding gaps, delays or other production issues related to the lack of trained staff. A specialist in the human resources field would also be capable to provide predictions on staff costs and training costs thereof, this being extremely useful when preparing a cash flow or a budget for the newly business. Not to mention that HR professionals would be the ones to identify whether there can be some economies of scale regarding the personnel costs, if there can be some restructurings made within the organization chart, that could favourably influence costs.

It is very important for the employees to acknowledge their specific roles, tasks, and responsibilities within the new company and this will be possible only by using proper human resources practices. The employees' handbooks should be reconsidered with the necessary changes, and the job description should be revised and communicated to all the staff. Each person working in the new company has to know its responsibilities, its limits of action and the person to whom he will directly address. It is recommended that the persons working in the acquired company to be put together with the ones from the acquiring side, in order to facilitate their socialization.

The rewarding system is a delicate and important aspect where managers should benefit from the help of a HR department. In the integration phase the rewards that employees were accustomed with should be preserved, and eventually negotiated their possible increase over a period. (Aguilera, 2006)

In addition, if necessary, the HR department is the one that needs to explain and convince employees that a different recognition and rewards system is normal and fair, especially for different tasks or projects of the same business. Especially for the sales team these rewards and incentives must be discussed and analysed and the staff should be highly motivated and satisfied with their job (Bearing Point Management& Technology Consultants). This can be extended also to other teams, such as those from the research and product development department or even from the management level.

The immediate period after a merger is one in which the company cannot afford resignations from the selling team because these will directly affect sales, revenues and cash receipts. Experts from the R&D department leaving the company will consist in a loss of intellectual capital, creating additional investment needs. Another worst-case scenario is that of losing one of the managers who knew and directly participated in planning the merger. The role of the HR department in all these cases is to analyse the satisfaction level of the employees, regarding the financial aspects but also the ones related to the work-environment. If the company cannot afford to increase salaries, at least some extra recreational activities should be organised, or other less expensive measures, which raise employees' satisfaction, should be considered.

Merging different cultures

Over time, the merger operation has been compared to a marriage, being a process in which two independent companies reunite in one single team, as a family, join all their assets and liabilities and continue their journey united.

As in any new formed "family", each partner of the merger has its own habits, ideas, beliefs and visions. All these elements form the organizational culture of the firm.

Researchers in the field consider that cultural dimensions differences can be one of the greatest drawbacks when speaking about post-merger integration. Reality showed that the cultural integration aspect has been, in many merger cases, usually overlooked in the planning phase. When it has not been completely over sighted, the problem regarding cultural integration was surely underestimated. The period in which the cultural change takes place usually overlaps with the delicate one in which managers have a great pressure on their shoulders regarding the financial aspects of the merger. (Cartwright and Cooper, 2000)

A good management team will take into account this very important factor even in the phase when the suitable merger partner is identified and the opportunity of completing the merger is evaluated. The compatibility of the organizational cultures must be well analysed because great differences may later conduct to critical situations, that might affect the smooth running of the business and even the financial results.

According to Deloitte, one of the culture's characteristics is that people perceive it as right or even as better than others'. This is why new cultural values imposed on employees, seldom replace their own values and beliefs in the long term. Moreover, cultural aspects are considered implicit, meaning that people will not recognize some elements of their life as being related to culture, although they are.

Regarding this aspects, Deloitte consultants consider that in the due-diligence process prior the merger, there should be an evaluation of whether the cultural elements can be integrated. In addition, they consider that cultural aspects should be closely related to business, by linking the cultural program established for integration to measurable business or financial results. Connecting culture to value-creation is an effective tool that can be used in order to achieve the objectives. (Deloitte, 2009).

When speaking about organisational culture, it has been identified a strange effect between employees, who tend to emphasize the differences between the merged companies, to develop distorted perceptions and to assign any error occurred to the colleagues from the other company. (Harrison and Farrell, 2008)

There are also situations when some little cultural differences may be in favour of stimulating dialogue, generating creative ideas and bringing innovation into the company (Mirvis and Marks, 2003). This will happen if employees will be opened to sharing ideas, thoughts and spending time knowing each other. Although having different organizational culture or different cultural background, common points must be found and similar interests should be identified.

A differentiation between cultural issues related to country of origin or religion and the ones regarding only organizational culture problems should be made. Cross-border mergers taking place between companies from different countries and cultures will need even a deeper analysis when speaking about integration. What is normal in a country or region might be considered strange or inappropriate by people from other countries. All the other colleagues should respect habits, traditions and religious manifestations of one employee. Otherwise, this may lead to frustration, discontent and even to accusations of discrimination, which, in the end will affect the entire business.

It can be stated that culture, this non-financial factor influencing a merger, is consider to be, in some situations, even more important than other strategic or financial factors. A balanced integration of the values, beliefs and ideas of both merging companies, creating a new identity, which inherits valuable traditional elements from the old teams, but also constantly adapts to the changes in the business environment, will directly contribute to the work productivity, positively influencing also the financial results.

Conclusions

Merger operations tend to be quite stressful both for the managers of the merging companies, but also for employees. In order to ensure the success of the transaction, in the planning stage and in the post-merger integration phase, some non-financial factors must be taken into consideration.

First, it is necessary the participation of managers who are competent, knowledgeable and experienced, and who will professionally choose the most appropriate strategies and approaches in order to achieve the objectives of the merger, and simultaneously maintain an united, motivated and involved team. Managers should act like a linkage between employees from all the departments, the CEO and other stakeholders.

Nevertheless, one or two managers cannot succeed in their effort without the support of a human resources team. Although, until recent times, the human related issues were neglected, it is now a well-known thing that employees' satisfaction will translate into a higher financial performance. If the HR department uses the adequate strategies to motivate and reward employees, their creativity and dedication to the business will increase considerably, and this way the products created or the services rendered will be of a higher quality. This will only translate into higher sales and revenues.

In the due-diligence phase, the team charged with the merger planning must also evaluate the level of compatibility between the cultures of the merging companies. In numerous cases these differences, if not early identified, can lead to internal conflicts and then even to significant disruptions in the daily activity. In addition, certain items regarding the organisational culture can be capitalized, in order to create a better and stronger image of the company. In a merger, as in a marriage, partners put together all their resources, not only material, but also ideas and beliefs, in order to create something more important, bigger and stronger.

Planning and assessing only the financial aspects when completing a merger might work on the short-term, but as time goes by, the influence of the non-financial factors mentioned above will be noticed.

In conclusion, in the phase preceding the merger, it is very important to have an experienced and well-trained manager, who takes into account also the non-financial aspects, such as cultural issues and personnel satisfaction. Afterwards, in the integration phase, the constant cooperation of the managers with the HR department is vital in order to keep a balanced work environment which will directly contribute to the long-term goals of the company in a more efficient and effective way.

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