Resistance to change in the case of mergers and acquisitions: part 3

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Abstract

Purpose – *Mergers and acquisitions (M&As) are inherent to firms evolving in today's business world, whether they be corporate giants, SMEs or start-ups. While the ultimate objective of an M&A is to improve the newly constructed firm's performance, financial and technical impacts are but some of the considerations the organization will need to face. Indeed, employee resistance appears to be a major factor in the overall success of this strategic move. Throughout this three-part paper, the purpose of this paper is to provide a thorough overview of the forces at play in employee resistance to change, its influence on the M&A's success, and the ways to address such resistance.*

Design/methodology/approach – *Based on existing empirical studies, industry expert findings and academic reviews, this paper sought to link together the concepts of communication at a time of change, leadership, employee involvement, feeling of adherence to the firm (the four key pillars), and their respective influences in how they may handicap or aid the firm in achieving its M&A objectives.*

Findings – *Although it may seem like a straightforward concept, resistance to change in the turbulent time that is an M&A situation is anything but simple. Classic assumptions of resistance being a negative force or participation being a requisite part of overcoming resistance are challenged. At the same time, leadership and employee feeling of adherence to their previous organization play a supporting role when compared to the significant influence of communication pre, during and after the merger. The ensuing portrait is, thus, multifaceted and underscores the complexity of handling an M&A at the human resources level.*

Research limitations/implications – *Whilst the paper allowed to identify and link the different factors at play, a thorough empirical study in order to compare and contrast those factors at an M&A's different stages (pre-during-post), and thus evaluate their respective importance, would be commendable.*

Practical implications – *In providing an overview of several aspects at play in employee resistance to change, this paper allows management practitioners to consolidate their knowledge on the process' four key pillars.*

Social implications – *By illustrating not only its – expected – negative outcomes, but by also providing a glimpse at some potential benefits in terms of increased merger performance, this paper gives managers incentives to not always challenge but also embrace their employee's resistance to change as a healthy part of the firm's transformation process.*

Originality/value – *This literature review provides an overview of resistance to change and draws parallels between the concepts explored herein and the M&A situation, which would be useful to the general practitioner undergoing an M&A.*

Keywords *Change management, Transformational leadership, Resistance to change, Mergers and acquisitions, Organization culture*

Paper type *Literature review*

Summary: mergers and acquisitions (M&As) and resistance to change

Dating back to the end of the nineteenth century, the concept of M&As is not unique to management decision making. Alluring in their promise of increased efficiency since their very beginning (Economy Watch, 2010), they nonetheless rarely deliver the promised returns. Indeed, "U.S. sources place merger failure rates as high as 80%, with evidence indicating that around half of mergers fail to meet financial expectations" (Cartright, 1996).

Faced with such low success rates, one has to postulate what exactly are the problems inherent to an M&A situation. Although it is tempting to separate the impact on the individual from the financial impact, it has been shown time and time again that "successful M&A outcomes are linked closely to the extent to which management is able to integrate members of organizations and their cultures, and sensitively address and minimize individuals' concerns" (Cartright, 1996). Concepts of change management therefore come to the forefront, namely the management of resistance to change.

Indeed, the literature in this three-part paper suggests that resistance is a normal, if not healthy, part of organizational or cultural change. In being better equipped to address resistance during a situation of intense change such as in an M&A, organizations would augment their chances of success. The following literature review explores resistance to change and its management during an M&A under four interrelated categories: communication, support from management, employee perception and participation, and adherence to the organization (Amiot *et al.*, 2006; Appelbaum, Gandell, Yortis, Proper and Jobin, 2000; Appelbaum, Gandell, Shapiro, Belisle and Hoeven, 2000; Appelbaum *et al.*, 2007a, b; Rubin *et al.*, 2013; Wanberg and Banas, 2000). Part Three of the article will deal with resistance to change that is affected by the simple notion of increasing employee "belongingness" and engagement, and engagement can increase their adherence to the newly merged organization.

Adherence to the organization and engagement

Resistance to change is affected by the simple notion of increasing employee "belongingness" and engagement, and engagement can increase their adherence to the newly merged organization.

Employee engagement

M&A situations can lead to confusion and uncertainty amongst employees as they wonder how they will fit in the merged organization (Rubin *et al.*, 2013). During times of change as in an M&A situation, it can be difficult for employees to simply keep their heads above water and stay productive (Rubin *et al.*, 2013). As many studies have found, "a large number of organizational change efforts fail to meet their stated objectives" (Rubin *et al.*, 2013). Maintaining employee engagement becomes a key element of success of the change initiative as an engaged employee will provide significantly more effort to complete tasks. Indeed, "employee engagement, and particularly the percentage of highly engaged employees, is positively correlated to higher performance and business value creation. These findings suggest that employee engagement is both an opportunity and a risk to be managed during times of transition" (Rubin *et al.*, 2013).

Data gathered by Aon Hewitt (Rubin *et al.*, 2013) suggest that although the proportion of actively disengaged employees increases similarly when there is an M&A situation, restructuring or strategy transformation, the percentage of highly engaged employees is cut in half during an M&A situation. The data also suggest that "acquiring another organization is easier on employees than being acquired. Thus, it appears it is not just the M&A activity that influences engagement, but rather the extent to which the M&A impacts an individual's job and whether one works for the acquiring organization or for the acquired" (Rubin *et al.*, 2013).

Looking at levels of engagement during an M&A situation is relevant, as results from different analyses revealed that "empowerment and engagement were related to resistance to change" and "significantly and negatively predict resistance to change; thereby confirming [that] engagement will be associated with resistance to change" (Culmer, 2012). In Culmer's (2012) research, and consistent with suggestions in previous research, "engagement was associated with reduced resistance to change and accounted for 7.9% of the overall variance in resistance to change." In other words, the more engaged the workforce, the less it will resist change.

Resistance to change can also be explained in terms of different sets of barriers. Project-related barriers can include direction, clarity or uncertainty and planning, implementing and controlling the project; people-related barriers are linked to resistance from both staff and managers, satisfaction with the status quo, resistance to change itself, etc.; organizational barriers can include organization structure, organizational culture and previously failed change efforts; and environmental barriers can come from customers, suppliers and partners (Bell and Barkhuizen, 2011). According to Bell and Barkhuizen's (2011) study, barriers to change "have a significant effect on the work engagement of the employees."

Belonging to the newly merged organization

Belonging to and within a new organization can be easily shown by first accepting the new corporate culture. Citing Berry (1980), Seo and Hill (2005) define acculturation as "changes in both groups that occur as a result of contact between cultural groups." This theory applies to M&A, as they include the combination of different organizational cultures. Acculturation takes place in four different modes that can be applied to M&A (deculturation, assimilation, separation, and integration); the mode is triggered by the strength of different factors (Seo and Hill, 2005). When the protagonists of the M&A do not agree on the mode, acculturative stress ensues, which can cause resistance and a cultural clash during the M&A (Seo and Hill, 2005).

Lee *et al.* (2014) explored culture clashes in cross-border mergers in a case study featuring Sweden's Volvo and South Korea's Samsung. They built their research on social identity theory which posits that "conflict and strife between acquiring and acquired employee's breaks down the integration process because acquired employees refuse to accept a new group identity and still identify themselves as members of the acquired firms even after the acquisition." Social identity theory pertains to the "us vs them" mentality, especially when "employees subjectively perceive their new group identity as 'acquired' employees to be unattractive; they try to keep their old group identity, intending to raise their self-esteem" (Lee *et al.*, 2014).

One issue that highlighted the culture clash in this merger was a newly implemented human resource management policy that affected the Korean employees more than their Swedish colleagues: "seniority-based pay, which had been previously enjoyed by the Korean employees, was abolished, and pay became linked with performance" and as such, "former SHI (Samsung Heavy Industry) employees had to give up their titles, which Korean employees viewed as a threat because their prior work experience suddenly became meaningless" (Lee *et al.*, 2014).

Based on their findings, Lee *et al.* established that "national cultural differences possibly have a negative effect on post-merger integration in that acquired employees are likely to experience serious acculturation stress depending on how cultural differences are to be perceived, which is largely dependent upon whether acquired employees perceive their newly created self-images to be more attractive." Hence, enhancing the "belongingness" within a newly merged organization can be achieved by increasing employees' perception that the new company is more attractive than the companies they originally came from.

Citing Wanberg and Banas (2000), Amiot *et al.* (2006) underlined that change-related self-efficacy is defined as "an employee's perceived ability to function well on the job, despite the demands of a changing work environment." In terms of resistance to change, feelings of self-efficacy were linked to greater adjustment to the change, greater readiness for change and a more active engagement in job redesign activities one year later (Amiot *et al.*, 2006). It was also noted that appraisals of self-efficacy should "positively predict the use of problem-focused coping during the merger but negatively predict the use of avoidance coping" (Amiot *et al.*, 2006).

Perception of fairness and belonging

Also, perceived fairness plays an important role in minimizing resistance during M&A, as "employees pay close attention to how people are treated in terms of distributive, procedural, and interactional fairness" (Seo and Hill, 2005, citing Greenberg, 1987). Indeed, Seo and Hill, citing different studies, explain that "perceived fairness towards all employees (survivors or displaced) substantially influences their attitudes (psychological withdrawal) and behaviors (turnover)."

Amiot *et al.* (2012) compared low-status vs high-status group members' levels of social identification within the newly merged organization to "test how identity threat inhibits the development of a new social identity and group members' perceptions of a common in-group identity." The authors conducted a study in the context of a merger between two hospitals: a lower status hospital and one of higher status, and data were collected via questionnaires and was quantitative in nature (Amiot *et al.*, 2012). Findings showed "as premerger organization status increased, perceived identity threat decreased, and a decrease in identity threat was associated with an increase in identification with the merged organization" (Amiot *et al.*, 2012).

In their study, McKay *et al.* (2013) found that the negative correlation between resistance to change and "affective commitment," defined as an "employee's emotional attachment to, identification with, and involvement in the organisation" (Allen and Meyer, 1990 as cited in McKay *et al.*, 2013), showed the sense of belonging to the organization as being a key driver of the ultimate outcome of the merger. Management should keep this in mind when undergoing a merger, especially when a change in top management is likely to affect the company's culture and therefore an employee's attachment to the company.

Conclusion

Numerous studies have been conducted to examine the different causes of resistance to change, their implications on certain behaviors and the risks the behaviors pose to the success of a change, namely an event like an M&A. The literature shows significant links between good management of the resistance factors and success of the change. There is no doubt that in an M&A situation, where financial implications often take front seat, ignoring the "people factor" comes with an at-your-own-risk post-scriptum.

Although several avenues have been explored to draw links between the situation pre-change (or pre-merger), the predicted reaction and its implications, it would be interesting for a future empirical study to link the concepts explored under the four categories herein all together. As it stands, one can draw conclusions from examining empirical organizational behavior concepts and different studies of M&A cases, drawing parallels from engagement to participation to acceptance. However, a general practitioner undergoing an M&A and looking for a guide and solid evidence-based advice could truly gain from a synthesized but meticulous evaluation of the links explored in the present literature review.

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