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Making sense of thought leadership

by Mignon van Halderen and Kym Kettler-Paddock

Soft information matters in SME lending

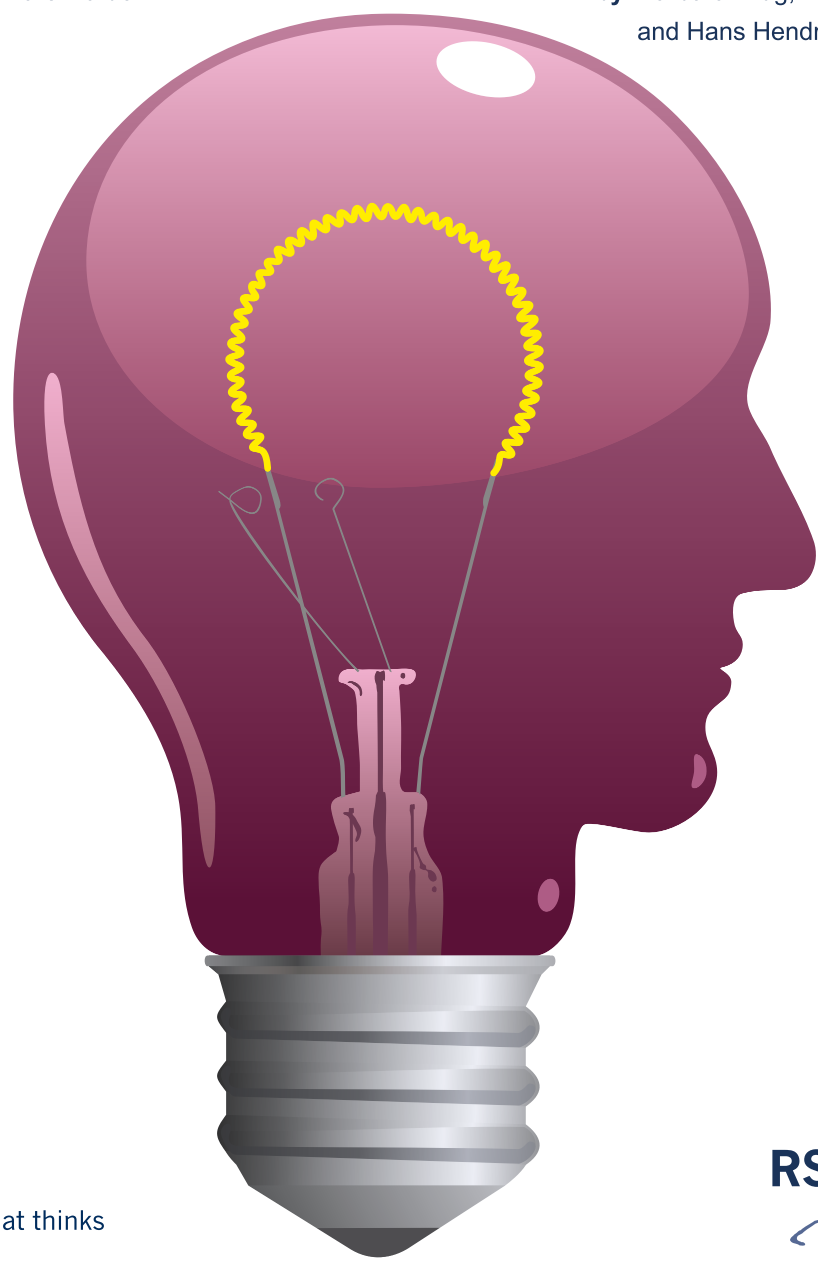
by Jens Grunert and Lars Norden

Identity management key to successful mergers

by Steffen Giessner

Chinese insolvency law lacks teeth

by Barbara Krug, Nathan Betancourt and Hans Hendrischke



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Identity management key to successful mergers

by Steffen Giessner

Alienated employees who feel a loss of identity could place financial and strategic objectives of a merger at risk through lack of drive, reduced performance, and even sabotage. Identifying and managing these issues from the start could therefore be critical to the success of such undertakings.

Mergers and acquisitions (M&As) can bring about extreme and drastic changes. This can, in turn, create a sense of uncertainty and insecurity with some employees in the smaller of the two companies involved. This largely affects employees at the grassroots who typically have concerns about their job security, career and work situation. Will they be laid-off? What are their career prospects? Will they continue to work with their current colleagues and report to the same line manager? Will they be assigned other duties? And will their job description change?

Based on a theoretical and practical framework of identity management during M&As, this article describes the research we have undertaken in determining the crucial role social identity and the human element play in M&As, the obstacles they can raise, and effective ways of controlling or eliminating them. In particular, we describe how underlying employee motives and organisational changes can create tensions and conflicts between organisations involved in an M&A, and their employees. Furthermore, we look at how managing identification continuity in an appropriate fashion, addressing fairness perceptions, and good leadership can all enhance social identification in the newly formed company.

We would like to point out that, although there are legal and other differences between the terms acquisitions and mergers, they are not relevant in the context of our research and this article. We will therefore use both terms interchangeably.

The question of identity

Corporate mergers have received a bad press and are largely held in a negative light by lower-level employees affected (unlike their line managers who see potential career advancement in them). In fact, just a hint in the media of a possible merger can create anxiety among personnel.

That is why mergers require proper human resource management to ensure they reach their financial and strategic objectives, and minimise negative consequences for employee well being. Understanding the history behind employees' identification with the merged organisation during the corporate merger is crucial, because stronger post-merger identification results in less conflict and higher levels of motivation.

Unfortunately, employees often identify more strongly with their previous company than with the merged one. One effective way to understand the processes that underlie organisational identification is through the social identity approach. Applying it to organisational mergers shows that levels of identification with the merged organisation are partly explained by status and dominance differences of the organisations involved, through motivational threats and uncertainties during the merger, and by the representation of the post-merger identity.

Identity management key to successful mergers (continued)

by Steffen Giessner

But what is identity? As humans, the starting point to understanding the world around us is to understand ourselves, and the way we understand ourselves is through the context of our surroundings. In many ways, we see ourselves as individuals with our own defining personality and characteristics: this is our personal identity. But being social animals, we also see ourselves as belonging to different social groups and identifying with their norms and characteristics. For example, Dutch football spectators watching their national team play Germany suddenly find themselves looking at German fans as opponents: spectators on both sides lose their personal identity during the match and take on a national one.

Now, considering we spend eight hours a day at work (the rest of the day is divided into eight hours of sleep and eight hours of personal time), it is not surprising that work and our working environment – the people and the company – determine an important part of who we are and what we identify with (our organisational identity). Importantly, the longer we spend in this environment, the more we become attached to it and the more emotionally involved with it.

Our research has shown that loss or reduction of social identity lies at the core of these problems. Misunderstanding and miscommunication can result as anxious employees (unwittingly) misinterpret or distort the truth. For example, they may overlook or downplay negative aspects of their current department. If employees feel that they may lose their job, they may protest openly, or silently by under-performing. Others may even sabotage the merger project in anyway they see fit just to demonstrate their fear, anger or disappointment.

Not surprisingly, three out of four mergers result in financial failure. This has less to do with bad financial advice and strategy, and more to do with the human element. Merger managers would therefore be wise to anticipate these problems and prepare for them.

Aim at integration

Good identity management is the obvious answer and the operative word here is permeability. In the context of this article, permeability refers to the ability of a company or personnel to integrate or be integrated into another organisation. It usually applies to a smaller, acquired company being integrated into a larger acquiring one.

Merger managers need to first determine how these identities work, and why they are threatened. Our findings also underscore open, balanced, honest and rapid communication as being the most effective tool in resolving such merger issues. Displaying total openness and honesty from the start in explaining possible organisational changes – however disruptive they are to the current work situation – but also prospects for career advancement.

Crucially, this communication process should be well structured. All employees should be informed as soon as possible of such changes – a new company name, for example, the restructuring of their department or a reassignment of duties and responsibilities. For employees not likely to experience an identity crisis caused by these changes, the communication process should then focus on identity continuity. In contrast, for employees who will experience a discontinuity of identity, communication efforts should subsequently focus on explaining the underlying motives of the merger in order to increase a perception of necessity for this undertaking.

Such a structured and strategic communication approach increases the perception of permeability among personnel from the acquired firm because it creates a favourable climate for them to evaluate the new organisation and their role in it (increased permeability). Of course, there may be subsequent lay-offs, but at least these employees feel that they stand an honest chance and are therefore prepared to give the merger their best efforts.

The most critical period of insecurity and uncertainty is shortly after a merger has been announced, but before employees can be told of the real implications of the merger. Considering that negotiations have not started at this point, such problematic issues cannot be addressed or resolved. This means that merger managers will have to find ways to deflect or alleviate insecurity and uncertainty issues in the meantime because these require an explanation. In this scenario, if merger managers are not forthcoming with one, concerned employees will devise or find their own.

On thing to bear in mind is that managing the human side of a merger involves both individual and organisational identities, and strengthening one will not necessarily boost the other. For example, offering individuals a bonus may not necessarily reduce or eliminate the threat to their organisational identity. We also discovered in our research that employees, who sense a continuity of their pre-merger identity in the post-merger organisation (in other words, their identity has not changed), will adapt to and accept the merger more easily.

However, there is an added complication. There is always a stronger and a weaker party in a merger (any so-called merger of equals is a misnomer and does not exist), usually the acquiring and acquired company respectively. Employees of the stronger company are less accepting of equal conditions for all because they feel they are better than their smaller rival, and therefore more deserving of better terms and career prospects. They are therefore threatened by any attempts at integration.

The challenge is to navigate between the two organisations without upsetting either one, focusing all the time on a unified organisational identity that reflects the new company's mission and vision, and which all employees will adopt eventually.

Our experience also shows that upper management is often in an excellent position to influence and convince, especially in establishing a new organisational identity or reinforcing the pre-merger one. Take the case of the merger between two London hospitals. Realising the importance of getting the physicians – the most influential group – on his side, the CEO of the acquiring hospital made the effort to speak personally to every physician at the acquired hospital, explaining the merger and its benefits and consequences in detail. This gesture was not only effective in convincing and reassuring the physicians of the value, appreciation and respect placed in them by the acquiring hospital, it also gave them a feeling of belonging and a new organisation identity.

The process goes on

Having detailed the issues raised by identity and the deployment of identity management to dispel or contain them, it is important to point out that identity management does not end once the contract is signed and the merger takes effect. According to new research, the human-related action plan in a merger is in fact an ongoing process. In analysing the effects of a merger, it has been discovered that different things matter at different points in time, which is why it is important to continue to manage and monitor this psychological process.

In the first months after the merger, for example, identity continuity is critical, but six months or a year later, the issue of fairness (for instance, were the merger procedures and the distribution of resources fair?) takes precedence. This means that a merger manager's work is not done as long as there are related outstanding issues to be dealt with. ■

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