2019-0980 IJOI
http://www.ijoi-online.org/

International Journal of Organizational Innovation

ISSUES AND ANALYSIS OF LEADERSHIP, STRATEGY, BEHAVIOR, AND ACCOUNTING OF MERGERS AND ACQUISITIONS: A CASE STUDY OF A MERGER OF TWO MEGA-CORPORATIONS

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Abstract

This paper discusses strategic issues of mergers and acquisitions based on a case study of a recent merger of two large U.S. corporations. The authors come together and discuss applicable issues that relate to their fields of expertise, such as leadership, strategy, organizational science, accounting, marketing, and others. Analyzing the case study, the authors come to a conclusion that mergers entail fairly complex issues that impact organizations and people in significant ways, executions of which should be well-thought out. The authors then offer some recommendations for companies planning to undertake the endeavors of mergers or acquisitions to help them execute their plans slightly easier.

Key Words: Mergers, Acquisitions, Leadership, Marketing, Strategy, Accounting, Organizational Science, Deming, Jaques, Organizational Theory, Planning

Introduction

In recent days, many companies are merging and acquiring (M&A) for various reasons, such as to diversify the product and service, eliminate competition, reduce operation costs, increase the probability of business success, expand the market share, and so on. These are some of the common strategies that many companies use today not just to survive in the competitive market, but also to lead in the market share. When such merging and acquisition take place, there is always a risk of uncertainty and confusion which leads to disruption in business operations, and consequentially can create frustration and hopelessness among employees, customers, and even investors.

When employees, arguably, one of the most valuable assets, during the merger lose their passion, synergy, and trust to the company and management, they are likely to lose productivity, motivation, and commitment to their company. On the other hand, these mergers and acquisitions create extreme stress and pressure on employees, which can impact the physical and emotional health and wellbeing of the employees and their fitness to perform the job. So, it is very important that the organizational leaders understand the human capital as the main resource for organizational success (Ivanov, 2011, 2016, 2017), and should rely on their employees' knowledge, skills, and motivations to establish a new successful organization.

Case Study

In February 2018, one U.S. mega-corporation, which for the purposes of this study we call Corporation X, announced the acquisition of another $5B company, which we will call Corporation Y. The combination of Corporation X and Y created on average a $10B Company XY with diverse and talented workforce to become one of the largest "government-contractor" corporations in the United States.

Currently, XY is in transition to structure as a powerful organization and it has already announced a newly formed leadership team that includes leaders from both companies. Since February 2018, the transition team has successfully completed seemingly impossible milestones, making this a successful merger in the history of the corporate America. With that achievement, however, it is important to note that during the merger, there were many issues that the company has dealt with which are highlighted in this short paper and analysis.

Executive Leadership Team Restructure

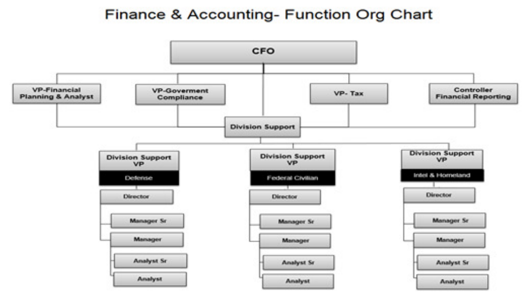
After the merger, XY leadership team has been restructuring that each executive has a clear chain of command. President is followed by a layer of executives and executives followed by VPs. In the functional area, VPs are organized based on the area of specialization and expertise. In the divisional area, they are organized by a business sector, such as Defense, Federal, Civilian, Intelligence, Homeland Security, and so on. Having a clear chain of command, in this new organization, possibly simplifies business decision making and provides clarity for specific roles and responsibilities among leaders.

Organizational Structure

Corporation X has about 20 thousand finance and accounting employees and about 90% of them are analysts and managers. The job titles are designed to display the hierarchy for the finance and accounting organization from the CFO to the lowest-ranking analysts within the organization. Because the organization supports many large government projects, the culture of responsibility, accountability, and collaboration is important for success

Analysis of Key Roles

The following chart depicts finance and accounting organizational chart:



Role of Analyst & Senior Analyst

Analyst/ Sr. Analyst: Requires Bachelor Degree in finance or accounting and years of work experience, about 1 to 3 years for Analyst and 3-7 years for Sr. Analyst. Tasks include: performing administrative and analytical tasks that comprise collecting, tracking, preparing, analyzing, summarizing, and reporting internal/external financial data and reports, monthly book closing, forecasting, budgeting, billing, supporting special projects, and ad-hoc requests.

For Sr. Analyst, responsibilities include providing guidance, training to less-experienced employees. Senior analysts also outline important features of the new company, such as its social responsibility and image, reflecting the stock value, and investors' attitude. Longest task is 1 to 3 months.

Role of Manager & Senior Manager

Manager/ Sr. Manager: Master's Degree in business and 7 to 10 year of work experience. Tasks include, being responsible for successfully executing financial operation, staff supervision, reviewing, reporting and presenting monthly and quarterly financial results, performing annual budgeting and addressing issues and challenges. Longest task is 1 to 2 years.

Role of Director

Director: work experience at a large fortune 500 company of 10 or more years. Tasks include broad scope of responsibilities for managing business profile of $600-$900M annual revenue programs; evaluating and communicating operational financial risk and opportunities; initiating new business, emphasizing operation efficiency, cost control, and elimination of waste, ensuring operational activities comply with relevant corporate and government policies and standards. Longest task is 2 to 5 years.

Role of Vice President

VP: 12-15 years of work experience at large fortune 500 company and the equivalent combination of education and professional certifications. Tasks include broad scope of responsibilities in the financial operations and organizing stability, decision making, long term planning, evaluating and assisting business development activities such as M&A, outsourcing. Longest task is 4 to 8 years.

Role of CFO

CFO: 15 or more years of work experiences at large fortune 500 company and the equivalent combination of education and professional certifications. Task include providing guidance on company investment and capital structure, strategic business planning, influencing the future direction of the company and work with the leadership team. Additional task include relationship with investors and shareholders, government agencies and the general public. Longest task is 8 to 12 years.

Issues and Challenges

Normally M&A is a lengthy process because it has to go through financial and legal procedures with the shareholders, stakeholders, the state and federal governments. The XY merger was complex, and this merger took some time to fully integrate due to organizations' massive size and complexity of products and services.

After the M&A announcement, there arouse significant frustration, hopelessness, and uncertainty among employees regarding their future employment. There were many issues that the interrogation team had to solve. However, these complicated issues require time to address.

Workforce Impact

Merges and acquisitions create extreme uncertainty and instability in the organization which in turn create a significant challenge for keeping employees. Especially when large companies merge, they may lay off large numbers of employees, force them to relocate, change salary and benefits, and adjust employment roles. These factors create turnover among employees.

During the merger, employees were worried about their job security, benefits, lack of leadership, credibility and future of the organization's direction.

After the merger, employees were forced to learn and adopt to the new corporate culture, new way of doing the business operations, dealing with new corporate personality, communicating and trusting their new co-workers whom they never saw or have work before.

All these changes created stress. Many employees developed a negative attitude towards the company, resulting in lack of commitment and reduction in job satisfaction. During this uncertainty, management and leaders didn't do enough to reach out to employees and address questions, concerns, and rumors truthfully and as early as possible. That also created deficits of trust. On the other hand, there were many business disruptions due to lack of clear direction from management which created more stress, anxiety, and frustration on employees' day-to-day operations that also led to further loss of expertise.

Lack of sufficient training of the new business systems and operations impacted job performance leading to more turnover during the merger. Employees were performing their work without or little supervision, often with an increased workload and responsibilities. Many employees, especially those who were struggling to adjust to the new corporate culture and management, were facing multiple challenges to cope with the new work environment. Because of the overwhelmingly conflicting nature of work environments of both companies and unsettling employees' turnover, the employee who stayed experienced immense work pressure.

On the executive level, with this newly merged organization, it appeared there were conflicts among the leaders in the governing, power, and business strategies. In a very short period of time, many executives resigned from the company, resulting in further hopelessness and confusion towards the direction of the company. After the merger, retention rate was one of the ongoing issues that caused significant issues in the new company.

Clash of Organizational Cultures and The Changing Corporate Personality

Corporations X and Y had two different cultures; Corporation X was known as more conservative while Corporation Y as a lead innovator. Combined, these two cultures required shift and open-mindedness on the leadership style, decision-making style, and most importantly willingness to accept the change and adopt new strategies.

In Corporation X decisions flew top-down, with corporate leaders making a majority of the business decisions. In Corporation Y, the decision-making used the down-up approach. The combined XY company has not resolved this issue.

Also, each manager had a different leadership style and a way of doing business that was hard to adapt by newly the merged company's employees. This created disagreements and conflicts.

What was also noticeable in this merger was that there existed an ego of a win-and-lose factor among employees and managers. Corporation Y employees who came to the merger felt that employees were the loser of the battle because they were forced to adopt to the new company X – more conservative work culture. These cultural changes led to additional stress, frustration, anger and ego among the employees of the new organization which then led to a decrease in employees' productivity, and loyalty.

In this merger, top leaders should have recognized and acknowledged this issue and taken appropriate action and course correction.

Lack of Clarity, Double Talk, and Other Issues

During the merger, company leaders failed to communicate with employees. Leadership team didn't explain well enough the reasons behind the merger, its timeline, and impact on employees. Employees doubted their concerns have been addressed with faithfulness or truthfulness.

Thus, employees worried about job security, work, and benefits. The company didn't do enough to manage the physiological effect of the merger on the workforce. As a result, many employees left the company due to fear and stress. Also, the leadership team showed hesitation to discuss the rumors openly and clearly, which further created lack of trust between the leaders themselves. During this M&A, the leaders used double talk, an intentional lie with self-interest (Ivanov, 2017, 2018), either for their job security or for the sake of their own advantages, such as promotions or bonuses. Victims of doubletalk, employees lost both trust and interest in their work which also caused low retention rate and high turnover in this merger.

Recommendations

The XY merger is still in process and there is still a lot of work remaining to fully integrate the two companies together. These are the some of the recommendations we would like suggest to the leaders of this and other companies undergoing similar endeavors.

Communicate Openly and Honestly

Leaders must communicate as frequently as possible and should get all employees engaged in the process. This is a key requirement to make the M&A a success.

Sometimes information doesn't flow all the way to the lower levels as expected, grooming an atmosphere of confusion and suspicion. Therefore, the leaders must establish a sound communication channel to circulate clear ideas to every position, and also gather feedback.

During the merger, the best way to communicate with employees is face-to-face, where employees can openly discuss their professional and private concerns. The leaders also need to address and explain ongoing rumors openly and swiftly, avoiding any kind of double-talk. The leaders should also be responsible and accountable for propagating clear messages of integrity amongst the employees.

Due to various reasons, there may be a chance of employees skipping the participation in day-to-day M&A activities, however even in their absence, they deserve to know details about what is happening in the merger process, especially regarding their future work role and employment.

When leaders are honest, transparent, and open, employees also become trustworthy and loyal to the company. As a result, this strategy increases employee engagement, boosts workplace productivity, and drives the business growth.

Build Trust

Work in an organization is a phenomenon that occurs between two or more people (Ivanov, 2017, 2018, 2019). When X and Y companies merged, two different people who were competing before the merger now were working together for one company and one common goal. Thus, the leaders should actively get involved to reconcile both cultures and develop new relationships among employees.

During the merger, leaders should create environment in which employees could collaborate and share their knowledge and ideas, participate and engage, fostering a relationship based on trust (Ivanov, 2017, 2018, 2019). By doing so, the company can expedite the merger, overcome the cultural differences, and increase trust and satisfaction.

Design Effective Organizational Structure

Hierarchy is the only structure for getting work done, especially in a big company like X or Y (Jaques, 1966, 1990, 1996, 1998, 2002), (Clement 2008, 2013, 2014, 2015), (Ivanov, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019), (Kraines, 2001), (Lee, 2008), (and others). Hierarchy, properly structured, allows management to hold people accountable for getting the assigned work done.

In a large and complex organization such as X, Y, or XY, some of the tasks are time sensitive and complicated in many aspects which may need a more experienced person to solve the business problems. When the new organization designs the hierarchal accountability structure, the leaders must understand the complexity of work and the required skill level, and then establish the hierarchical structure deploying and embedding Jaques and Deming ideas (Jaques, 1990, 1996, 1998, 2002), (Deming, 1992, 1993, 1994).

Promote Healthy Work Culture

One of the most important attributes of work is trust and it takes a certain time to build up (Ivanov, 2011, 2017, 2018, 2019). The leaders should focus on creating a culture in which both companies' employees can lean on each other, and create an environment of mutual trust and support.

The company should promote the culture in which employees work together, and share knowledge with each other (Ivanov, 2011, 2017, 2018, 2019). Through a policy set by management, employees should not compare and compete against each other, but rather come together to solve a business problem for the benefit of the organization (Deming, 1992, 1993, 1994). Managers need to stop comparing employees, and instead become coaches, rather than judges.

When employees work together, bring their ideas together, and share knowledge to eliminate the potential gaps, the challenging problems can get solved perfunctorily. By promoting an ethical culture, company can help develop employees' skills, and increase organizational efficiency.

A strong and well-established culture requires tone at the top, and competent organizational policies. Good culture creates good employees who put their soul and mind to work, increasing work productivity and job satisfaction at all levels.

Focus on the Merger General Strategy, and Internal and External Marketing

A potential impact of marketing on the success or failure of any merger or acquisition can be looked at as a recursive one. Effective marketing would help pave the way for a successful merger or acquisition. The development of a newly constituted brand with its benefits package for its customers can make the development and implementation of the analytical and consulting operations more effective.

Conversely, a successful merger or acquisition would generate a better platform for the marketing of the core product to its target areas i.e. DOD, Homeland Security, and other organizations of the U.S. Federal and Local Governments.

In the transition phase, the internal marketing of the merger important. Internally, there exist various constituent groups which would need to be brought on board. As noted elsewhere in this paper, many current employees suffer from a lack of confidence in their own and the corporations' future. This lack of confidence can manifest itself in decreased productivity.

In another section of this research we discussed the need for direct face-to-face communications. Marketing can contribute internally to the successful merger in two ways. First, corporate management, via sound marketing and human resources research, needs to understand the needs and fears of the current set of employees in many sides of the merger. It is highly unlikely that the merger would be perceived as an equal sharing of resources and responsibilities between the two firms.

Second, the internal marketing process can effectively develop both direct and indirect channels of communication through, for example, newsletters, internal web pages, bulletin boards, and other means. Then, employees can both maintain contact with the current issues of the merger, and understand various changes in their working environment, thus, giving management a better opportunity to anticipate, recognize, and deal with the human side of the merging enterprise.

Conclusion

In summary, acquisition-and-merger is not just a quick fix of joining two entities together, but it encompasses a broad range of processes and requires a considerable amount of thought, planning, and time. It should always go along with an adequate understanding of the nature of employees from different cultural and corporate backgrounds. A merger often involves employees with different work attitudes, and mindsets, thus integrating them in a common suitable work atmosphere is a must.

Employees' and the leaders' skills, capability, and motivation play a vital role before, during, and after the merger. The executives must understand and address the existing doubts, and confusion of all employees. When uncertainty is unaddressed (of restructuring, benefits, group dynamics, management, and culture, future, etc.), the company can expect profound impact on company's ability to accelerate towards growth and synergy.

From this particular case study, the authors recommend for any company undergoing M&A activity(ies), to communicate openly and honestly, build trust, design an effective organizational structure, and build a supportive and competent work structure and culture.

The authors hope that some of these recommendations would be useful to heads of companies, and also management scholars and practitioners helping organizations merge, and further develop theories of large organizations.

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