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HUMAN RESOURCE MANAGEMENT POLICY CONSIDERATIONS IN
POST-MERGER INTEGRATION:

From Pre-M&A to Post-M&A
HUMAN RESOURCE MANAGEMENT POLICY CONSIDERATIONS IN POST-MERGER INTEGRATION:

From Pre-M&A to Post-M&A

The research will be focused on key success and failure factors on human resource management policy in post-merger integration stage. Human dimension is probably the most important and most challenging among all other factors in PMI. The purpose of this research is to exam and find important factors in human research management in PMI to raise the successful rate of M&As.

The data will be secondary date that came from previous interview and collected data which are primarily but not exclusively based upon interviews with partners and managers from the national and local offices of the merging firms.

From the examination of this case, it is clear that despite the many similarities between the two companies’ optimism and good will of the partners, a successful merger is not guaranteed. Especially too much optimism can lead to neglection of some of the basic and detailed policies that should be changed and adapted.

The difficulty of researching M&A and PMI is that each case is unique and it is hard to generalize one or two situation and apply certain method in all cases. The only thing to we can do in order to increase the successful in a M&A is to strategize an effective PMI.
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Chapter 1 Introduction

The research will be focused on key success and failure factors on human resource management policy in post-merger integration stage. Human dimension is probably the most important and most challenging among all other factors in PMI. The purpose of this research is to exam and find important factors in human resource management in PMI to raise the successful rate of M&As. We understand almost every M&A will create difficulties such as "People-related problems" include high levels of stress, tension and anxiety (Buono et al. 1988, Hayes 1979, Pritchett 1985, Schweiger and DeNisi 1991, Shirley and Peters 1976) financial uncertainty (Sutton 1983) job dissatisfaction and diminished productivity (Barrett 1973, Levinson 1970, Buono et al. 1988) and employee turnover (Hayes 1979, Walsh 1988, Graves 1981). There are also various reasons of failure in M&A such as lack of strategic rational, unrealistic pursue of synergy and etc. Although finance and strategy studies have increased our knowledge about M&A and post-merger integration (PMI), in many cases the human factors, especially the importance of organizational structure and human resource management in PMI are under-evaluated. To fill the gap, this thesis will exam how HRM policy can and will affect the success of M&A during a PMI, to find out what is the precise mechanism in PMI
human resource management. The answers to these questions will contribute to boost the possibility of a successful M&A.

For corporations to survive the intensive competitive business environment they need to continually grow (Penrose, 1959). According to the resource-based view of the organization (Wernerfelt, 1984), organizational growth entails adding to corporations’ resources, tangible or intangible. These resources can be added either gradually through organic development, or rapidly through inorganic extension. Many corporations are using M&A as a strategy in order to acquire new technology, patent, new sales channel, and etc. to expend their resources. However, numerous M&A fail because the post-merger integration fails. Scholars have examined these problems in terms of strategic market entry choice (Hennart and Park, 1993), market valuations (Jensen and Ruback, 1983), value creation (Haspeslagh and Jemison, 1991) and firm performance (Galbraith and Stiles, 1984; Chatterjee, 1986; Blackburn and Lang, 1989). PMI is a complex and unstable process, and each case has its uniqueness. Therefore, it is difficult to study and categorize the cases and hatch a new theory that could apply for all the PMI.

There are some common beliefs in M&A and PMI. For example, it is believed that it is easier to realize synergies that are expect from a M&A in domestic than cross broader M&A. In other words, no matter the nationality of the companies, each one of them forms
a unique company characteristic which result different work behavioral patterns of the employees. In addition, there are also some of the most common problems in HRM that will make a PMI fail such as difficulty blending cultures and systems, fall-off in services quality, poor motivation, loss of key personnel, flight of customers and loss of focus on long term objectives (Booz Allen & Hamilton, 2001; Cartwright and Cooper, 1994; Datta, 1991; Hunt et al., 1987; Moore, 1998; Rhoades, 1998; Tripe, 1999; Wallis Committee, 1997; Weber, 1996). However, what is the most important reason for a PMI to be successful and lead to successful M&A in HRM policy is still not clear in many cases.

To fill the gap, studying the key success and failure factors on human resource management policy in post-merger integration stage after a merger and acquisition will solve the problem and increase the possibility of success in a M&A. The search will re-exam HRM policies in successful and failed M&A cases.

The research will contribute to future corporation M&A and PMI and increase the possibility of successes. Produce the expected synergies in a M&A. More specifically make a suitable and effective HRM policy in PMI to help the organization transform smoothly.
Chapter 2 Literature view

The merger literature cites a variety of strategic and practical issues to be tackled under the guise of human resource management or organizational issues. These include, for instance, how to blend and manage two or more organizational cultures, several sets of policies, practices and procedures; how to manage the transition and focus on future organizational needs; how to design the new organization and its jobs; how to manage redundancies; how to keep business-as-usual functioning; how to manage and motivate staff including senior management; and how to realize synergies between two organizations and thus become more efficient (Appelbaum et al., 2000a, b; Buono et al., 1985; Cartwright and Cooper, 1994; Mace and Montgomery, 1962; Mirvis and Marks, 1992; Shrivastava, 1986). Proven approaches to deal with these issues are less frequent. However, there is growing agreement that dealing with HRM risk is facilitated by strategies which seek to stabilize the workforce (Schweiger et al., 1993). A review of the merger literature identifies three key factors that emerge as important considerations in workforce stability: job security, procedural fairness, and communication. (Jane Bryson, 2002).

Schweiger et al. (1987) cite job security as the most important factor for employees during a merger, followed by pay and benefits, work autonomy, and performance
feedback. Research has also indicated that the organizational change process in mergers is usually tightly controlled by management and decisions on job losses are driven solely by the need to reduce numbers (Kanter and Seggerman, 1986). Thus, employees are commonly concerned not only with job security but also with how selection decisions are made. Related to this, a number of researchers have shown that perceptions of procedural fairness are a key factor in determining staff attitudes to, and experience of, merger change (Ashkenas et al., 1998; Brockner et al., 1994). In particular, the perceived fairness of redundancy procedures is reported to impact significantly on the attitudes of the staff that remain in the organization (Brockner and Greenberg, 1990; Schweiger et al., 1987, 1994). The extensive literature on managing communication in periods of organizational change and merger, shows that frequent and honest communication to staff about the merger has a stabilizing effect (Ashkenas et al., 1998; Napier et al., 1989; Schweiger and Denisi, 1991). Mergers provide fertile ground for job insecurity, unfair treatment and procedural injustice, as boards and senior management seek to quickly realize efficiencies and increase shareholder value. Hence workforce instability and industrial action are a risk. HRM strategies used to address this risk include consultation committees, regular communication mechanisms, one to one counselling support, and targeting of key staff for retention (Jane Bryson, 2002).
With the previous studies, it is said that failing in communications, stable working environment or corporate cultural mismatch is to blame in a failed M&A. However, it is still not clear how the details work in each part. For example, what kind of communication is more effective. What kind of policy should the human resource managers make to help the merged corporation establish an efficient communication system. In another word, how to make effective HRM policy that will help to unify two organization with different pre-existing cultural characteristics, and boost performance of the merged organization.
Chapter 3 Hypothesis

The initial aim of this paper is to empirically test the following hypotheses

1. In order to make a M&A successful, both companies need to consider the HRM policy before the merger takes place and enforces it in the PMI process.

2. When making policy in PMI, the HRM department should also understand the importance of keeping mid-level managers quickly adapt the new working environment in order to smoothen the PMI process.
Chapter 4 Data and Method

The research method adopted was a case study of merger between two accounting firms in Canada. The case was acquired from a previous study which was originally conducting research on: H1. the courtship stages of the merger process are characterized by a concern for strategic fit to the neglect of organization fit. H2. Ambiguous agreements made during the early stages of a merger lead to a cycle of escalating conflict as ambiguities are clarified during the consummation stage (Greenwood, R., Hinings, C., & Brown, J. 1994). Conducting research on M&A and PMI will require to collect an abundant amount of data, and these data will be obtained through case methodology. However, each case in M&A has its unique feature. The reason that make this case different from other M&A cases is that the merger examined was unusual compared to those previously studied because of the degree of integration attempted. It was also unusual for two additional reasons. First, the merger was between firms apparently similar rather than different in their structures, decision processes and basic cultures. Therefore, each firm had the same structural configuration (i.e., operated as a professional partnership with a small national office and a network of geographically dispersed local offices), emphasized clan rather than bureaucratic mechanisms as the basis of coordination and authority, and had similar numbers of committees, task forces and project positions as forms of structural integration.
Another unusual feature of this merger is that it was widely accepted by the stakeholders involved. Most senior personnel in both firms voted in favor of the merger. The case study is to test the hypothesis in a situation where PMI difficulties is least expected, and in that situation how the human resource management policies may help or become the obstacles in such situation.

Data collection

The data will be secondary date that came from previous interview and collected data which are primarily but not exclusively based upon interviews with partners and managers from the national and local offices of the merging firms. The local offices were in a large Canadian city. The choice of a single local office was pragmatic given the nature of the research methods used. National office personnel were interviewed because they were the key players in the early stages of the process. However, the brunt of the merger is borne in the local offices where over 98% of the workforce is to be found and where the activity of merging affects and disrupts ongoing production processes (Greenwood, R., Hinings, C., & Brown, J. 1994). Unlike the previous study which was focused from pre and post-merger process, this research and re-examination of the case mainly focused on the policy negotiation and post-merger process of the 2 firms.

During the interview prior to the merger had taken place, it was interesting that the
managers in each local office said:

The biggest concern of our professional and other staff is, of course, "What will happen to me? When the two offices/departments combine, there will be duplication and will I be the one to be displaced?" Our task is to eliminate this fear. The best way to attempt to do this is through face to face contact-one to one or small groups. Because we need to act quickly, meeting with each staff member individually is not possible in every case. Accordingly, we need to conduct briefing meetings for groups of staff members.

Among other topics, human resource practices would be standardized. In some cases, the adopted system would be taken from one firm (not always from the same firm). In others, the original systems would be blended to form a new approach.
During the post-merger integration, given responsibility for resolving inter-firm differences on a range of issues covering human resource practices (e.g., salaries and benefits of non-partners) and office accommodation. Several key discussions (e.g., on choice of audit methodology) had already been concluded at the national level but the local office had to provide technical seminars in order to implement them. In addition, staff socials, mixers, golf and dinner parties were arranged by a social committee. A bi-monthly newsletter from the national office, supplemented by local material, further informed staff of ongoing merger developments. As already noted, it was recognized

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*Greenwood, R., Hinings, C., & Brown, J. 1994*
early that integration of personnel was critical for the success of the new firm. The local office, aware that personnel "is probably the most sensitive issue in the merger," had been provided with timetables by which merger activities had to be completed. A policy of no redundancy had been declared at the outset. "Principles" of integration were laid down nationally.

The first year of after the merger was closed, the company was rather successful. However, no one was promoted to the partnership. Two candidates from ex-firm X and one candidate from ex-firm Y were nominated but all were unsuccessful due to failing to receive 80% of support from current partners. Managers were disturbed because some of them believed that partners from previous another firm were voting against each other. By that time period disagreements had taken place over the appropriate approach to the audit task.

Quality control is a real problem. There are people who are not prepared to conform. It's been happening since day one and it's time to get it sorted out. Things are coming to a head. The problem is at partner level.... We're always cleaning up after (partner x]. (Partner; Firm Y) We don't want them pulling our standards down. Some of them are excellent but some are really sloppy. We have to sort things out. We don't want to be a high volume, low fee firm. I don't want to work for some of those assholes. (Manager; Firm Y) We had a bunch of people
who were capable accountants and entrepreneurial. Y were more conservative.... Y wanted
ticks in the right box and all paperwork fully and duly completed. Most of our people didn’t
Chapter 5 Discussion

The case study was originally conducted throughout 5 years period, from pre-merger negotiation, merger and post-merger periods. During reading the case, it had become clearer that along with the time passes more problems had appeared. The uniqueness of the case was at first thought to be successful because both companies had many similarities, it was difficult to anticipate and/or see the factor that could had negative impact on the merger.

Hypothesis 1:

Companies X and Y were two professional firms and had the same organizational structure. They provide the same audit service and just like many other M&As, the merger was considered a fit for both companies’ strategically. Most of the partners had agreed on this merger and positively believed it will be successful. Obviously, these are all factors that will motivate a merger and potentially help with PMI process. However, when two company being overly optimistic about the situation, they tend to oversee some basic conditions such as HRM policies. There are clearly differences in organizational cultural differences. For example: the availability of information on income distribution. In Firm Y, partners did not know the earnings of other partners in the firm. In Firm X, on the other hand, each partner was aware of the earnings of all partners locally and nationally. The
latter approach was consistent with Firm X's philosophy of allowing each local office to retain its own earnings (minus a contribution to national office overheads). Under such a system ("eat what you kill," as one partner smilingly described it) the openness of information encouraged, at least according to Firm X partners, a collegial style within the local office (Greenwood, R., Hinings, C., & Brown, J. 1994). And sooner lead to the merger to fall apart little by little. The merger between the two-accounting firm X and Y had an optimistic and a promising start. Such cultural difference could be controlled by enforcing new HRM policy by forbidden or full disclosure of the information depends on which way works best for the merged firm.

**Hypothesis 2**

Although the Merger of company X and Y had a promising start even during the pre-merger negotiation period. It is not difficult to see there are still certain concerns from the local office manager who are worried about their wellbeing.

"What will happen to me? When the two offices/departments combine, there will be duplication and will I be the one to be displaced?"

Then later on, after the first year of merger despite a good year no manager was promoted to partners, and this raised more insecurity and stress among mid-level management as well as partners. Partners in both partners should anticipate such situation because
different organizational fit was already obvious, and in order to prevent such issue. It is easy to blame the two organizational culture because they are different and there will be conflict. Designing or overseeing the post-merger integration process can be an immense challenge for management (Galpin & Robinson, 1997; Harrison, 2007): some of PMI process can be solved by a well designed HRM policy.
Chapter 6 Conclusion

From the examination of this case, it is clear that despite the many similarities between the two companies’ optimism and good will of the partners, a successful merger is not guaranteed. Especially too much optimism can lead to neglection of some of the basic and detailed policies that should be changed and adapted.

The difficulty of researching M&A and PMI is that each case is unique and it is hard to generalize one or two situation and apply certain method in all cases. The only thing to we can do in order to increase the successful in a M&A is to strategize an effective PMI. Among all the factors that will affect a M&A, the people issue is one of the most important factors. An effective human resource policy is a key to constrain the human factors.
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