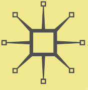

Nicholas Jackson

Organizational Justice in Mergers and Acquisitions

Antecedents and Outcomes

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Preface

Fair treatment of employees in the workplace is a much-debated subject, and any arguments are often formed around a very subjective and tenuous context. Scholars studying in this field tend to have focused their attention on the conditions that influence both the antecedents and outcomes of perceived fairness (e.g. see Bies & Moag, 1986; Folger, 1993; Greenberg & Wiethoff, 2001). An element of this research stream has focused on the increasing employee uncertainty to emerge from organizational change, and its effect on their perceived justice (fairness) amid interest of how this transpires into behavioral and attitudinal outcomes. One such example of corporate change that is often radical and can have disrupting consequences for the employee is that of mergers and acquisition (M&A).

During a period of increasing globalization over the past four decades, M&A has seen a significant proliferation in popularity as a form of developmental growth strategy, encouraged, in part, by a desire for increased competitive efficiency. Exponential growth of M&A, by both value and number of deals, occurred during the late 1990s and, following a dip around the turn of the millennium due to the early financial recession, growth returned to a similar resurgent pattern until the financial crisis of 2008. Since then, perhaps with some reflection of a more cautious outlook, the number of deals has fluctuated, peaking in 2015 at just under 40,000 and dipping to just under 37,000 in 2016. As an indication of

their upsurge in popularity, the number of global deals has increased from just fewer than 3000 in 1983, and by value from US$84.9 billion in the same year to over US$3000 billion in 2016 (Thomson One Banker, 2017). Many motives present a compelling case for this method of integration, including: (i) access to global markets, (ii) diversification, (iii) the opportunity to achieve operational efficiencies, (iv) the opportunity to innovate through new capabilities and resources, and (v) benefits from increasing stability of the external environment through control of a supplier or competitor (see, for example, Hitt & Pisano, 2004; Horwitz et al., 2002; Worley & Cummings, 2001). Achieving strategic objectives such as these may present the organization with an opportunity to strengthen its resources and competences, perhaps providing the competitive advantage pursued through this form of developmental growth strategy.

There would seem to be a compelling case for this method of integration, which has lucrative offerings for an organization when compared to alternative strategies, such as organic growth or configurations of organizational alliance. The obvious benefit is the ability to grow the organization with an almost immediate effect. This may be the case but even so, despite the considerable increase in M&A over the past four decades, it is also acknowledged that, in a persistently high percentage of cases over this period, there has been a failure for many organizations to achieve their preacquisition strategic objectives. While attempts at problem-solving have engaged with central issues such as financial performance and resistance to change, it is evident that there is still a black hole when it comes to developing best practice for those organizations undertaking the process of integration. A consistency of underachievement is endemic.

In part, this persistently high rate of missed opportunity has been caused by a failure to understand the complexities of managing people through the transition of change. A widespread claim is that over half of all M&A that fail to meet their strategic objectives of integration do so because of difficulties originating from the attempted combination of employees from the integrating organizations. Full integration should result in the emergence of a new organization that assimilates the working practices and policies of the old organizations and a transformation for employees from previous organizational identities to a new organizational

identity that encompasses a shared cultural meaning. However, barriers are often created through employee resistance to these changes. Two commonly cited examples are the difficulties encountered with employees experiencing cultural change and a transitioning of their identities into the newly formed organization and its environments. In a situation where they are often powerless to stop the progress of change, employees who experience difficulties adapting to these transitions will use forms of resistance, which in turn will become a barrier to integration. All too often the response by authorities is to drive through the necessary integration of operational functions without the full support of employees. Identifying and understanding the reasons why individuals resist the change to a new organization is therefore important if they are to be encouraged to transfer their identities and embrace the developing shared meaning of the new organizational culture.

One of the recognized levers of employee change resistance is whether they feel the changes being undertaken in the workplace have been fairly applied. Organizational justice is the psychological concept of fairness as perceived by the employee and broadly recognized to consist of three key elements or dimensions: (i) the distributions or outcomes (distributive justice), (ii) the procedures by which those distributions are determined (procedural justice), and (iii) the communication of both the distributions and how these have been determined (interactional justice). With the wealth of supporting evidence outlining the strength of association between perceived justice and workplace attitudes and behaviors there is a compelling argument to deepen our understanding of this concept within the context of M&A. Whereas organizational culture and identity have been recognized for their critical influence in the process of developing employee attitudes in a merger context and a substantial theoretical framework already exists, the frameworks surrounding organizational justice in the M&A process are less well established. Within the context of M&A, more clarity is needed about the mechanisms of fairness as they are perceived through the lens of the employee in relation to their outcomes and how these are determined and communicated.

Developed from both an academic and a practitioner perspective, this book aims to provide new insights into a strategically important area for organizations. The case study material that is developed within has been

drawn from actual events involving corporate mergers. Along with the depth of research from previous studies in the field of organizational justice, this will provide an opportunity for both scholars and practitioners alike to develop a deeper understanding about the dynamics of this concept within the climate of a merger or acquisition. Several studies have highlighted the lack of empirical evidence relating to the cognitive process of perceived justice during and after a merger or acquisition. The focus for developing this text has, in part, been responsive toward the need to advance knowledge in this field and make use of an opportunity to bring together the different strands of research with newly developed material.

The text has been developed to improve clarity of understanding about the relationship between organizational justice and employee outcomes from the specific change process of a merger or acquisition. Other than a shortfall in current research, the requirement to further develop this area of study is based on concerns that perceived fairness in the workplace has potential to influence important attitudes and behaviors, such as job satisfaction, organizational citizenship behavior, and employee commitment to the organization.

The theoretical concepts and frameworks discussed in this book are considered in light of the author's own study conducted in two organizations that were able to share their own firsthand experiences of an organizational merger. One of the organizations was an established provider of higher education in the UK and the other formed from the outcome of a hospital trust merger. The study investigates the dynamics of perceived fairness within the specific change mechanisms of an organizational merger and considers the antecedents and outcomes of such a phenomenon. The use of a mixed methods design encompassed four separate phases, three of which were conducted within the recently merged university business school. In the first phase, a survey revealed that, when compared to social identity and organizational culture, perceived justice was a factor of greater importance in the employee evaluation process. Phase 2 consisted of a series of 25 staff interviews identifying and exploring the antecedents of organizational justice. In Phase 3, a second survey was introduced to test the significance of the key relationships to emerge from

Phase 2. The NHS Trust merger provided the setting for Phase 4 of the study where the second survey, initially introduced during Phase 3, was administered among 386 employees. It was established from this study that the main antecedents of organizational justice evolved from ineffective communication mechanisms, a distrust of authorities, and the merger procedures they implemented. The outcome of these perceived injustices was a belief that there had been a breach of psychological contract. The effect on behavioral and attitudinal outcomes from these perceived injustices was lower organizational citizenship behavior, lower affective commitment, and an increase in the intention to leave the organization in the near future.

With consideration to the reasons already discussed, the text was prompted by three specific and fundamentally decisive factors. First, it is evident that although a large body of knowledge has been developed through existing research within the broad context of organizational behavior in M&A, there is only a rudimentary understanding of how the process and the employees captured within it are affected by the concept of organizational justice. Second, it is evident that many of those organizations that set out on the journey of M&A with an idealistic perspective of their aims and integration objectives fail to understand the true cost of employee resistance and the factors that are most likely to encourage this. Organizational justice, its antecedents, and its outcomes may currently have a low profile but has a big impact. The opportunity to develop this text and draw from the cases included within has provided scope for a practical contribution, and I hope that practitioners will find this useful. Finally, an interest in the area derived from practical experience provides a context for the author's initial approach to the subject of M&A.

In developing this text there are a few people I feel the need to acknowledge for their various contributions, without which the book would remain incomplete. First, I would like to thank Gail Clarkson and Chris Allinson for their time and patience in supervising me as a PhD candidate at the University of Leeds. The text has been developed around ideas and outcomes from my PhD, and the support and guidance both Gail and Chris offered during this period was fundamental. I would like to thank both Liz and Lucy and the rest of the editorial team at Palgrave

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Leeds, UK Nicholas Jackson

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Part I

Mergers and Acquisitions

1

Introduction

1.1 Emerging Patterns and Trends

The popularity of mergers and acquisitions (M&A) as a development strategy has increased significantly over the past 25 years, due in part to an ongoing pressure for organizations and companies to continuously renew and change themselves in an attempt to remain competitive and innovative. When considering opportunities for growth, Johnson, Scholes, and Whittington (2011) define three forms of developmental strategy for organizations: internal development, acquisition, and alliances. In comparison to other developmental growth strategies, Horwitz et al. (2002) recognize that M&A can offer an enticing range of competitive advantages that organic growth cannot achieve. They cite as major advantages the acquisition of new capabilities and resources in addition to the potentially unrivaled opportunity for costcutting. Furthermore, they provide greater control than the alternative options of licensing or forming alliances (King, Dalton, Daily, & Covin, 2004). It is therefore recognized that this form of integration has potential to offer several benefits for organizations and when compared to alternative strategies, such as organic growth or an alliance, the ability to grow the organization with an almost immediate effect.

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If we consider merger trends over recent times, both the number of deals and financial value show the growth pattern which corresponds with a period of increasing economic globalization and significant rises in foreign direct investment. Within this context of globalization and subsequent intensification of competitiveness, M&A became the dominant mode of firm growth in the 1980s and 1990s for both European and U.S. firms (see Capron, 2004; Berggren, 2003; Hayward, 2002). In part recognition of this, there is a considerable body of research that examines M&A and their consequences. As Fig. 1.1 shows, there was a substantial increase during the period 1998–2000 and then an equally rapid decline during the years 2001–2003. This coincides with a period of considerable economic expansion and subsequent contraction in global markets and corporate valuations. The incline continued again in 2004 until 2007 when, due to the global financial crisis in the following year, there was a severe decline in corporate valuations. It is noticeable that even so, after an initial decline, the number of deals has continued in strength.

These periods of increased activity are not uncommon in M&A and are often referred to as "merger waves." Typically, a cyclical pattern emerges beginning with an intense period of activity and tailing off

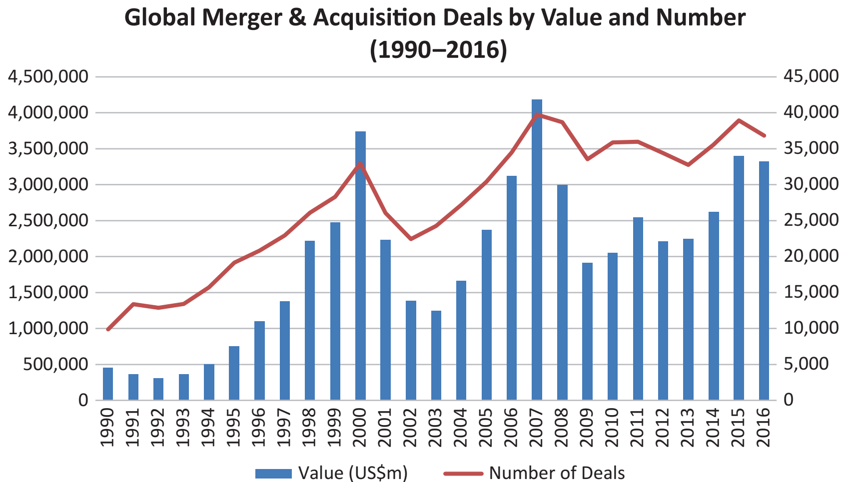

Fig. 1.1 Global merger and acquisition deals. (Note: Based on data presented by Thomson One Banker (2017))

eventually with much quieter and leaner spells in the intervening years. Going back to review activity from the early part of the twentieth century, there have been six merger waves recognized within the United States (globally acknowledged as trendsetters over this period). These consist of the periods 1893–1904, 1916–1929, 1965–1969, 1981–1989, plus the periods 1992–2000 and 2003–2007 (Vazirani, 2015), the latter two aligning with those periods presented in Fig. 1.1 and depicted as global M&A deals. Of interest are the most recent periods, identified as the age of the strategic mega-merger (1992–2000) and a period of intense corporate leverage (2003–2007). These two periods recorded incredible growth and culminated in unprecedented levels of merger activity by deal value and number of deals concluded (Vazirani, 2015).

Connecting with the interest M&A has received over these periods there has been a notable increase in the volume of research undertaken by both academics and practitioners encouraged in part, no doubt, by the wealth of interest in the effectiveness of integration compared to other forms of corporate expansion strategy. Often being the conduit for radical forms of change, M&A brings with it several challenges for organizations. While the data in Fig. 1.1 illustrate the considerable increase in the popularity of M&A, there is often a price to pay for the route to expansion that they offer. Even though these statistics bear out the fact that strategically they are often the preferred route for growing organizations, there are further data raising awareness to underachievement, underperformance, and stakeholder dissatisfaction. While research attempting to diagnose these issues has grown in abundance over this period, it is only of more recent times that attention has turned to the role of human behavior.

What many contributors to this topic often avoid doing with any clarity is defining what is meant by “failure” in terms of a merger or acquisition. When defining failure, we need to consider that it isn’t necessarily referring to wholesale abandonment of the project but may be more reflective of the failure to achieve the strategic objectives that were outlined in the premerger prospectus. Researchers of M&A tend to dispute the key underlying causes of the failure (in whatever format) and tend to highlight both hard and soft factors, with little commonality of purpose. From a much broader perspective, it is evident there are several factors

that are attributable to most of the failure rates, including paying the wrong price, buying at the wrong time, selecting the wrong partner, and buying for the wrong reasons. However, these tend to be easy opt-outs. For example, how do you define the wrong price if the deal turns into a massive success? It is only the wrong price if the merger isn't perceived as having achieved its objectives and therefore deemed to be a failure. However, upon closer scrutiny this may be for a variety of reasons including a failure to integrate staff and/or systems effectively, poor leadership, and failure to make available those with the necessary skills sets. Further analysis may then begin to get to the root-cause (i.e. what were the barriers impeding staff integration, what was needed from leaders, where were those with the necessary skill-sets, and why were they not readily available and in place at the right time?).

1.2 Methods, Typologies, and Objectives of Integration

The strategic direction of integration and the method of approach taken by either the merging entities or acquiring organization can also be categorized depending upon several criteria. These will have an important influence because the subtleties of each case will provide the employee with contrasting perceptions of the integration and have an influence on how they evaluate the changes being implemented. A relevant example is the power differential (acquirer relative to target) between the organizations involved, which may define whether the integration is deemed a merger or acquisition, as the former will consist of entities that are similar in size. The dispersal of power across the entities has also been recognized as a major influence on perceived equity and justice (Halvorsen, 1984) because of its effect on the decision-making process (Haspeslagh & Jemison, 1991; Mirvis, 1985; Olie, 1994). This potential domination effect may be significant toward how the new organization is developed as the dominating partner will have more opportunities to influence the structure and design (van Knippenberg, D., van Knippenberg, B., Monden, & de Lima, 2002).

1.2.1 Integration Method

Table 1.1 depicts the four recognized methods of integration and their characteristics including an acknowledgment of whether an acquisition is deemed to be either *hostile* or *friendly*. The difference between these two acquisition typologies is that a hostile bid is attempted without the approval of the target organization's board and a direct approach is made by the potential acquirer to the target organization's shareholders. A friendly bid will be offered to the target shareholders by the potential acquirer with the approval of their board. If these are considered in their extreme forms, then the contrast between the two is stark. For example, in a friendly acquisition with a low level of integration it is much more likely that the acquired organization will retain its own identity and most of its decision-making autonomy (Citera & Rentsch, 1993). However, in an environment of hostile acquisition with a high level of integration this is unlikely to be the case.

While the relative size of the integrating organizations may have significant influence, according to van Knippenberg et al. (2002) the difference between an actual merger and an acquisition is primarily, in practice, a legal matter. Even though during a merger the notion of equality is acknowledged, there will be a dominant partner due to their size,

Table 1.1 Forms of organizational integration

Method of integration	Characteristics
Merger	Entities are usually of a similar size. Transaction will consist of an exchange of shares with little or no cash
Acquisition	Friendly: Deal goes to shareholder vote *with* board of directors' approval (an agreed bid)
	Hostile: Deal goes to shareholder vote *without* board of directors' approval (a hostile bid)
Proxy contest	Attempt to gain control of target company's board of directors via a shareholder vote
Leveraged buyout	A purchase of shareholder equity by a group, often including incumbent management, and financed by debt, venture capital, or both

Note: Based on material presented in "*Acquisition strategy and implementation*," by N. Hubbard, 2001. Basingstoke, UK: Palgrave

profitability, power, and influence or even perhaps their viability in comparison to their intended partner (Rentsch & Schneider, 1991). In fact, it is acknowledged that, from a psychological perspective at least, most mergers are takeovers (Cartwright & Cooper, 1992). This led Hubbard & Purcell (2001) to avoid using the term "merger," and instead during research they used the term "acquisition" rather than "merger":

> Since the latter presupposes a marriage of equals which very rarely happens, even if the acquiring company's top management assert that this will be the case. Indeed, this promise may be the first act of many in setting up expectations which are subsequently not met. (p. 18)

From these inferences it is reasonable to accept that there will be a dominant partner in most cases and it may be prudent to measure relative dominance on a spectrum from minimal to extreme rather than presume there is a case of true equality.

It should also be noted that not only size of organization but power, influence, and even viability may determine which partner holds the dominating position in the relationship. It is also asserted that status may be an influencing factor. For instance, employees from the lower-status organization in a merger, or target organization in an acquisition, may feel the most threatened by the event (Terry & O'Brien, 2001). A typical impact of this situation would be that those employees then have a lower propensity to adapt and adjust to the merger (Terry, 2003). The resulting attitudinal and behavioral responses from employees of the lower-status or target organization are more likely to be negative than employees from a higher-status or acquiring organization (Covin, Kolenko, Sightler, & Tudor, 1997; Terry & O'Brien, 2001). For example, there may well be feelings of worthlessness and inferiority due to further loss of autonomy and status (Schweiger, Ivancevich, & Power, 1987). Hence, there is the challenge to overcome such negative affective reactions from this group of employees, reactions that positively influence behavioral resistance to change (Kavanagh & Ashkanasy, 2006). A common occurrence in mergers is for leaders to feel it is a simple process of needing to change the culture of the merging organizations to change the behavior of the respective employees. Such mind-sets exemplify the arguments pertaining to weak leadership and/or a leader's misreading of

the situation. This is a consequence of failure by those at the helm to understand what motivates followers to change their behavior and the far more intricate processes involved. Subsequently, a result is often the resistance alluded to earlier.

1.2.2 Integration Typologies

According to Cartwright and Cooper (1992), there are four main strategic options for merging or acquiring organizations consisting of vertical, horizontal, conglomerate, and concentric integration. These are presented in Table 1.2.

An example of a vertical integration would be a customer acquiring or merging with a supplier or, indeed, the supplier acquiring the customer. The common requirement is that both organizations are from the same industry. A horizontal merger or acquisition is performed by two or more organizations at the same process level and from the same industry. This form tends to lead to the deepest level of integration, which may have consequences for the employee as processes are often duplicated. Both conglomerate and concentric integration generally involve organizations in less familiar fields and therefore a lower level of integration is often experienced.

The past 50 years has witnessed a radical change in the motives and objectives of integrating organizations. During the 1960s merger boom,

Table 1.2 Types of integration

Type of integration	Characteristics
Vertical	Two organizations from successive processes within the same industry
Horizontal	Two similar organizations in the same industry.
Conglomerate	Organizations in a completely unrelated field of business activity (e.g. footwear specialist acquiring a toy manufacturer)
Concentric	Organizations in an unfamiliar but related field (e.g. a brewer acquiring a snack foods manufacturer)

Note: Based on material presented in "*Mergers and acquisitions: The human factor*," by S. Cartwright & C.L. Cooper, 1992. Oxford, UK: Butterworth-Heinmann Ltd.

the scale and geographical spread of integration was more constrained in comparison to the liberated and globalized markets organizations operate in today. During this earlier period most combinations were of a conglomerate type, whereas the merger booms in the 1980s, 1990s, and of more recent times have seen an increasing number of horizontal integrations involving partnerships of organizations from the same field of business (Cartwright & Cooper, 1995).

Unsurprisingly, acquisitions formed within a related area of industry tend to perform better and with more success than those originating from an unrelated area (e.g. see Cartwright & Cooper, 1992). This is largely due to the potential economic advantages generated by those organizations (e.g. economies of scale), but also other factors that are essential, such as an enhanced ability to transfer product knowledge and expertise. This trend toward the joining of related entities provides opportunity for deeper systems and human integration, and their success has subsequently become increasingly more dependent on wide-scale integration of their systems, procedures, practices, and cultures (Cartwright & Cooper, 1995). It may be the case that where an organization's primary objective includes creating efficiencies, employee reactions are less of an initial concern to them. Consequently, this may have very different repercussions from the employee's point of view (Hubbard & Purcell, 2001). There needs to be greater awareness of the important role that people play in the process of synergy realization following a merger. A problem with delivering synergies has been recognized in cross-border deals, in part, due to cultural and other human resource problems. A substantial number of merger failures can be traced to neglected human resource issues. These are classified by Schweiger et al. (1987), who suggest that how an individual perceives the effect of a merger and how it is managed will relate to its impact on the individual themselves. They propose that an individual will perceive their lot from one of the following scenarios:

- Irrelevant appraisal will lead to the individual being unaffected.
- Positive appraisal will create challenging opportunities for the individual.
- Negative appraisal will cause the individual to feel threatened and often to suffer harm or damage.

Where the integration is not identified as horizontal, an aim to take over the core competences of the acquired organization may be a key objective of the acquiring organization's senior management. Normally, in the case of a vertical, conglomerate, or concentric acquisition (see Table 1.2), there will be potential diversities within the integrating organizations' product or service market. In these cases, there may well be a renewed sense of purpose for the need to retain staff competences, due to their potential specialist and unique abilities, which could be paramount to successful implementation of acquisition objectives. This is not to diminish the role of the employee within a horizontally related acquisition because, for example, the target may have been acquired in respect of their superior experience, or their particular expertise in research and development. But in a situation of increasing dependence upon the target organization's capacity to offer unique capabilities, and perhaps the possession of superior core competences that are vital to the processes of that industry, the importance of retention and commitment of those key staff who can offer these will be vital (Johnson et al., 2011).

1.2.3 Strategic Objectives

Acquisitions, mergers, and change have been an ongoing part of the operational strategy of many organizations for years and have proven to be a significant and popular means for achieving corporate diversity, growth, and rationalization (Cartwright & Cooper, 1992). This strategy could provide the flexibility for organizations to grow quickly and meet objectives such as these which may be central to them being able to compete at an advantage.

Reviewing the list of possible primary motives or objectives for M&A presented in Table 1.3, it becomes evident that in many cases achieving these will be dependent on the retention of those employees who will remain an important factor in the formation of effective merger strategy. This will be especially the case for those who require specific market or technological expertise, and perhaps where they can make an important contribution from any tacit knowledge of the employee. On this basis, particularly where integration is deep and the changes to structure may be

Table 1.3 Motives for acquisitions and mergers

Motive	Characteristic
Adapting to a dynamic external environment	Offers the speed with which it allows the company to enter new product or market areas, particularly in a rapidly changing external environment
Access to new markets	Acquisition overcomes the creation of excess capacity and therefore the risk of competitive reaction is reduced
Increase market share Industry rationalization	Acquirer may seek competitor's order book to gain market share, or may seek industry rationalization by closing down their capacity
Deregulation of markets	Deregulation has been a major driving force behind merger and acquisition activity in many industries (e.g. utility companies)
Financial motives	For example, target company has a low price/earnings ratio, asset stripping, and so on
Acquisition of resources and competences	For example, R&D expertise, knowledge of production system, business processes, or market needs; international developments (market knowledge etc.)
Cost efficiencies/ rationalization	For example, target company further down experience curve and achieved efficiencies which would be difficult to match quickly by internal development; rationalization to cut out duplication or gain scale advantages
Expansion	Acquisitions may be a quick way to deliver growth but can also be destructive (e.g. "parent" does not have sufficient feel for acquired businesses and, accidentally, destroys value (diversification))
Stakeholder pressure	Stakeholder disparities—short- vs. long-term growth strategies

Note: Based on material presented in "*Exploring strategy* (9th ed.)," by G. Johnson, K. Scholes, & R. Whittington 2011. Harlow, UK: Prentice Hall

radical, potential employee contribution could seal their fate within the new organization, determining where or whether they are retained within the new structure. Where there is a duplication of skills and abilities and their specific contribution is limited, uncertainty for the employee is likely to proliferate. An example would be a horizontal form of integration which raises opportunities to take advantage from increased economies of scale and scope. It is often the case in these forms of M&A for a consolidation of processes to become one of the primary objectives. Consequently, the value of individuals within the new organization, and the scale of any

adjustment they will endure, may be a decisive factor in shaping their attitudes toward the change. An extreme situation that might exemplify low levels of concern about the potential fallout from human integration would be where the prime objective is asset stripping or industry rationalization through the elimination of a competitor.

Of course, there has already been reference to the loss of personnel and the likely impact this may have on organizational effectiveness from a routine, day-to-day perspective and meeting the mid- to long-term objectives set from the merger. One area of concern with acquisitions is the loss of expertise through attrition of the strategy makers—the senior management. As is often the case, executives have embedded knowledge of their firm and, in addition to other critical contexts, such as industry experience and important relationships they may have developed with external stakeholders, this form of tacit knowledge is difficult to replicate quickly. Indeed, a widely held belief supports the notion that retaining executives in the acquired firm is a crucial aspect of any successful integration strategy (Krug, Wright, & Kroll, 2015).

However, retaining the acquired organization's senior managers in situ because of their previous experience is also deemed to offer potential limitations. These are the individuals who have previously had responsibility for the decision-making process, and if the organization is being acquired because it has underperformed then questions must be raised about those decision-makers who were responsible for past performance and underachievement. There are also a multitude of arguments that recognize that the change in process offers the opportunity for transformation and a chance to sweep clean the dusty corridors of recent times. In addition to the argument against retaining underachievers and poor decision-makers there are others that consider that these individuals may also be protagonists of resistance during and after the merger. Value is often created by the removal of such people at the top of an organization who are committed to their own goals, which may not align with those being pursued by the new organization. Situational factors will normally be critical here. This view is supported by agency theory, which purports that the failure of boards to correct poor functioning will lead to predator companies bidding for the rights to take them on and improve performance. This perspective was predominant during the early 1990s and for more than

25 years had been the dominant view of acquisitions providing justification for those supporting the removal of executives and a higher-than-normal attrition rate from the acquired organizations (Krug et al., 2015). Even so, executive turnover is generally recorded as high in organizations that have both good and bad performance records. This indicates that the acquirer's main interest is purely because the target will have something the acquirer values and that a high attrition rate for executives cannot simply be explained by aligning with poor performance.

Alternatively, an organization wishing to diversify, or perhaps enter a new product or geographic market, may be reliant upon retaining specialist knowledge, particularly within the target organization. Similarly, even within a related field, a target organization with greater experience or superior expertise in research and development may provide opportunities for an acquirer looking to progress within that field. Such core competences and unique capabilities of the existing workforce may be the prime motive behind the acquisition and provide the opportunity to achieve such objectives. The recognition of human resource as a core competence and its role in enabling the realization of strategic capabilities from a newly- integrated organization is, in part, due to a rapid increase in globalization and new technologies (Neef, 1999; Sullivan, 2000). Retaining this resource and maximizing its potential to sustain an achieved competitive advantage is then the challenge for integrating organizations.

Bresman, Birkinshaw, and Nobel (1999) acknowledge organizations that gain a competitive advantage over their rivals are doing so increasingly by "innovative recombination of knowledge" (p. 439). They maintain that this is often the key reason for acquisition. Galpin and Herndon (2007) discuss the importance of retaining knowledge during integration and the crucial role that this will play in overcoming mistakes made in the past. It is evident that for some acquiring organizations there is a premium value in resource acquisition, especially the unique resources that may be (i) vital to the acquirer if entering a new market (Barney, 1991) and (ii) the main target of the acquirer to enhance their current range of resources, provide core competences and, ultimately, to provide sustainable competitive advantage (Hitt & Pisano, 2004). Attaining knowledge may bring long-term benefits and revitalize

the acquiring organization, encouraging its long-term survival. It may be the case however that there is no further capacity to take on new skills, an issue referred to by Cohen and Levinthal (1990) as the capability of *absorptive capacity*.

However, much of this information about potential synergies is unknown at the time of premerger, where a great deal of uncertainty still exists. It is often the case at this early stage for integrating partners to hire investment banks to collect vital information about potential gains, even though there is a lack of clarity about how much of this private information leads to an informed position about merger gains. Caution prevails because early stage enquiries will often not transform into a full-blown merger or acquisition, and if the companies decide in the end not to integrate they could draw on this information at some later stage to their own advantage when trading independently. Taking this into account, even though some information is readily available and accessible to both firms at an early stage, there is much more that remains private.

1.3 Common Features of Failure and Success

While the list of motives for M&A illustrated in Table 1.3 is certainly not exhaustive, it highlights the more common reasons that motivate the need to merge or acquire, and many of these are drawn by either the urgency for rapid expansion of the business or the objective of increasing efficiencies. For example, a dynamic and fluid external environment may not allow for time to expand or increase competencies organically or for the potential restrictions of an alliance with another organization. This is a very similar proposition for organizations wishing to access new markets, increase market share, or take advantage of a need to rationalize resources. Often, satisfying stakeholder pressure for short-term gain may be a key objective that drives the integration. Brueller, Carmelli, and Drori (2014) label the type of relatedness between the integrating partners as either *bolt-on acquisitions* (companies seeking either a product or market extension in a related field) or *new platform acquisitions* (interests in a new business space or activity).

1.3.1 The Negative Legacy

M&A provides the opportunity to speedily accomplish these aspirations. Although perhaps haste is of some significance to why over half of acquisitions fail to meet the objectives of the parties involved (Hubbard, 2001). This claim was also alluded to by Capron (1999) who stated that 50% of domestic acquisitions and 70% of cross-border deals fail to produce intended results. These claims are extended by Marks and Mirvis (2001) who state that three out of four M&A fail to meet their financial and strategic objectives, statistics that changed little over several decades of M&A. During the early 1970s, and based on managers' self-reports, failure rates of 46–50% were reported (Kitching, 1974), compared to studies by Rostand (1994) and Schoenberg (2006) reporting failure rates of 44–45%; figures that substantiate earlier claims (Hunt, Lees, Grumbar, & Vivian, 1987; Ravenscraft & Scherer, 1987). In a study of 540 organizations, only about one-third of the chief executive officers of acquiring companies were satisfied with the results (Erez-Rein, Erez, & Maital, 2004). Johnson et al. (2011) add that following an acquisition, shareholder returns of both organizations are lower than they were preintegration in as many as 70% of cases. Perhaps consistent with Wishard's (1985) early estimate that two hours of productivity per employee are lost per day during the early stages of a merger. These facts tend to lend support to the notion that in most cases M&A do not seem to lead to higher performance (Agarwal & Jaffe, 2000; King et al., 2004).

Tuch and O'Sullivan (2007) add, "In the short-run, acquisitions have at best an insignificant impact on shareholder wealth .... Long-run performance analysis reveals overwhelmingly negative returns" (p. 141). They purport that the most successful performers (or least negative) are the acquisition of hostile targets, those paid for in cash and acquisitions of larger targets. Previous empirical studies confirm findings that targets of hostile takeovers do not underperform targets of friendly acquisitions (Franks & Mayer, 1996; Kini, Kracaw, & Mian, 2004). This may not be surprising if, as is often reported, most hostile takeover targets have previously underperformed; their capacity for improvement from a low base may be reason for this.

1.3.2 Timing Is Everything

Successful integration may also be affected by other selection issues such as organizational reputation, performance, and timing of acquisition (Larsson, Brousseau, Driver, & Sweet, 2004). For instance, if a target for acquisition is a high performer, it is likely to cost the acquirer more. The acquirer may also encounter greater resistance from the workforce and management because they are more likely to have developed a high regard for both their own and their organization's potential. Conversely, staff from poor-performing organizations may welcome the opportunity to become part of a more successful regime. This may be particularly pertinent where employees hold the incumbent management responsible for the downturn and a change in leadership is perceived as a renaissance to revitalize the organization. It is acknowledged that takeover strategy is often motivated by a belief that the acquiring firm's management can manage the target's resources better (Gaughan, 2011).

The price paid by the acquirer may reflect the problems currently being encountered by the target organization, in which case any turnaround will be a relatively straightforward introduction of the acquirer's expertise or availability of new funding. Similarly, timing judgment of macroeconomic forces can be a contributor toward success or failure to meet target objectives. For instance, Larsson et al. (2004) comment: "Evidence suggests that corporate combinations made in late recessions have the advantages of lower prices, less organizational integration overload, and less employee resistance compared to those made during boom periods" (p. 16). It should be noted that in such cases the likelihood of all-round support and complicity of both workforce and management is considerably enhanced. Not all M&A are viewed as a threat, but in some cases as a potential opportunity. A prime example of an organization deploying a successful acquisition growth strategy is Cisco Systems, who, between 1990 and 2000, realized annual earnings per share growth of 59% and an annual average total return to investors of 73.4%. As established by Erez-Rein et al. (2004), Cisco achieved this rapid growth "using consummate skill in acquiring companies with the knowledge and human resources it needed" (p. 21).