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Strategic Human Resource Management of Cross-Border Merger and Acquisition Activities: a Case Study in the United Kingdom and Iraqi Companies

Layth Zuhair Alsakafi[a], Rehab Hussein Jawad[b], Zain Mohammed Saeed Al-Hamami[c], [a]Faculty of Administration and Economics, University of Kufa, [b]Collage of Administration and Economics Babylon University, [c]Faculty of physical planning, University of Kufa, Email: [a]Laithz.saeed@uokufa.edu.iq, [b]Rh.aa880@yahoo.com, [c]zain19832000@uokufa.edu.iq

This organisation based in Manchester is embarking on a merger and acquisition activity with a company in Iraq. This cross-border merger and acquisition activity has several implications on organisational and national cultures of both companies. This report finds that the merger activity between this company in Manchester and the one from Iraq is likely to face serious difficulties mainly as a result of the vast dissimilarities in national and organisational cultures of the two countries. Problems are likely to arise during the integration phase and problems linked with culture are frequently part of the integration process. On an individual level, managers and employees are likely to resist the impending change by antagonising each other as well as exhibiting resentment towards the acquired company's managers thereby leading to an emphasis on personal security rather than on achieving organisational goals. In addition, owing to cultural shock which managers and employees of the Iraqi company may experience will result in hostility towards the acquiring Manchester company and a tendency to leave. In addition, at the organisational level, this culture shock may lead to a tendency to not share information or communicate with their respective managers from both sides resulting in intense conflict and hostility. Therefore, to manage these disruptions, changes and anxiety among employees and managers on both sides requires effective leadership, engagement and communication with all stakeholders is required. HR plays a fundamental role in managing these processes because for the organisation to succeed as one entity it may require a change in its vision, values, structures, strategy and company culture. All of these changes have significant implications for the behaviours and competencies needed in the new organisation and to encourage and support these behaviours or attitudes required, many of the HR policies and practices may have to be changed in order to align them to new organisational realities.

Key words: *Human Resource Management, Acquisitions*

Introduction

Increasingly Mergers and Acquisitions (M&A) are becoming a strategic route for organisations in increasing market share, diversifying, entering a new market, creating synergies, making economies of scale and acquiring a needed resource (Schraeder and Self, 2003). Some studies suggest that mergers and acquisitions enhance the effectiveness and competence of merged or acquired companies (Nikolaou et al., 2011; Amir et al., 2008). Although there is ample evidence of successful M&As, (see. King et al., 2004; Agrawal and Jaffe, 2000), some research has persistently suggested that most mergers and acquisition frequently fails to realise its objectives (Fubini et al., 2006; Epstein, 2004). Over 70 per cent of all unsuccessful mergers and acquisitions are attributed to cultural incompatibility and human factor issues (Moeller and Brandy, 2007; Cartwright and Schoenberg, 2006; Cooper and Gregory, 2001).

The reason for this is because M&A as strategic change action significantly disrupts an employee's way of life in the organisation as it induces fear, anxiety and stress as employees are expected to adjust to some painful new changes (Burke and Cooper, 2001). Therefore, as this organisation embarks on the merger and acquisition process with a company in Iraq, there is need to understand the human, organisation and national cultural differences between these organisations, that are will likely to hamper the actualisation of the merger and acquisition activity. Thus, this report will highlight the complexities and challenges of the merger and acquisition process, examine the human and cultural factors, in order to devise the best integrating strategy that will lead to successful attainment of the objectives of the merger.

Merger and Acquisition

Mergers and acquisitions are a process by which two or more organisations come together in order to achieve specific strategic and business goals and these transactions not only have considerable impact on the financial, economic, and political success of organisations concerned but also significantly impact on the human resources (Hankir et al., 2011). However, in spite of the growing sophistication of international M&A activities, studies increasingly show that there is a low rate of success in most mergers or acquisitions (Baynham, 2011; Bert et al, 2003). A principal reason adduced for the apparently high unsuccessful merger and acquisition activities are related to human resource issues prior to, during and after the deal (Cartwright and Cooper, 2003). This is because people are vital to the integration and implementation of merger or acquisition plans, but in most cases this critical resource – the employees - are often neglected when contemplating a merger or acquisition.

Employee resistance to change because of perception of fear is a main reason for high M&A failures (Jones et al., 2008). This is because huge organisational changes such as mergers and acquisitions upset the structure of organisational life of employees with regards to relationship and reporting structures, group boundaries, status and work tasks, as well as the communal characteristics connected with group membership (Terry and Jimmieson, 2003). As such, resistance to change is practically inevitable when employees are frightened about their jobs or independence as a result of the merger or have misconceptions about the nature and implications of the change.

Employee Engagement

Employee engagement is a term broadly used and engaging employees is popularly considered to transform employee productivity and profitability. Although the idea that an engaged workforce will be more committed, productive and efficient is not a new argument, however, in contemporary employment relations, employee engagement has come to mean several things. However, most scholars believe that the drive behind engagement is to improve organisational performance. This is because engagement will result in positive behavioural outcomes such as improved performance (Dundon and Rollinson, 2011), participation and work enrichment (Mcleod and Brady, 2008), trust building, satisfaction and commitment (Macey and Schneider, 2008).

However, Gorman and Gorman (2006) note that many leaders fail to fully engage their employees during periods of organisational change. This manifests in many employees getting first-hand information about mergers and acquisition from media rather from the organisation. Few activities are as damaging to employees' morale and motivation as a sense of exclusion from the actions and plans of leaders in their organisation. This is because the more involved and engaged employees feel the more likely they are to support management decisions and this is even more crucial in securing their commitment during periods of organisational change such as M&A (Macey and Schneider, 2008).

Engagement enables the organisation to build trust which is critical in motivating employees in embracing the impending change (Mcleod and Brady, 2008). In addition, engagement enables management in understanding how employees will respond to messages delivered by the organisation and as such recognising what needs to be changed in order to minimise tensions and conflict that are likely to hamper the change effort.

Therefore, in times of organisational change such as mergers and acquisition, the engagement of employees is critical for the acceptance and implementation of the process as it will remove the underlying tension, conflict and resistance by channelling employee efforts towards the positive side of the merger. This is because, as noted Saks (2006), when employees are engaged, they exert more effort in achieving organisational goals, remain connected, and stay positive and constructive. Whereas when employees feel disengaged or are "on the fence," they are likely to watch for signals of failure, take cues from the rumour mill, intentionally decrease their productivity, distrust management and their messages, and hold back on extra effort.

The Psychological contract

Mergers and acquisitions are strategic change efforts that impact on the employment relationship. Within the employment relationship, three types of contracts exist: formal, informal and psychological contracts (Coyle-Shapiro et al, 2004). However, while the formal and informal contracts are explicit in nature, the psychological contract is essentially implicit and therefore presents unforeseen challenges during change efforts because it deals with unstated set of expectations that the employer and employee have of each other, in addition to the responsibilities that they have towards each other (Dundon and Rollinson, 2011).

A typical issue in a psychological contract is security of employment, fairness, career expectations, involvement and influence. However, the growing need for change has necessitated organisations to re-organise, downside or restructure its operations in order to survive the increasing volatile external environment. But, this strategic change has provoked mounting disenchantment with the traditional contract based on lifetime employment and stable elevation from inside the organisation (Hiltrop, 1996). Thus, mergers and acquisitions have considerable impact on the psychological contract as they may lead to loss of jobs, changes in work roles, career expectations, all of which will affect the loyalty and commitment of employees.

Thus, as we embark on the merger process, it is extremely important that a positive psychological contract is maintained as it is related to higher commitment, satisfaction and better employment relations thus, ensuring a harmonious implementation of the merger process (Armstrong, 2006). Also, Mohrman and Lawler (1998) assert that through an effective HR function, an organisation will be able to develop a new psychological contract and means of giving employees a place in the changes that are occurring in the organisation.

Organisational Change

Change is inevitable both in individual and organisation life. However, in organisations, changes can be planned or emergent. Organisational change can be intentionally initiated by management in order to improve organisational performance. However, emergent changes induced by external pressures are problematic because they are beyond the control of an organisation (Senior and Fleming, 2006). These changes include: volatile market forces, increasing competitiveness, globalisation, government interventions and regulations, dearth of natural resources, rapid advances in new technologies and the information age.

Planned organisational change can be strategic long-term and organisation-wide issues designed to maintain a competitive advantage (Armstrong, 2006). Thus, most planned organisational change efforts are induced by the need to able to adapt and respond swiftly to the demands of the external environment. These will entail planned strategies designed to improve the operational effectiveness of the organisation and might require an organisation to change its vision, values, structure, strategy and even its corporate culture if it is to survive and grow (Mullins, 2007).

Thus, the underlying objective of these planned strategies is to alter the behavioural patterns of organisational members in a way that enables the organisation to respond swiftly to changes in its external environment because these changes have considerable implications for the behaviours and competencies needed from people within the organisation (Schuler et al., 2009). However, regardless of the nature of the change, it has considerable impact on employees in the organisation. This is because organisational changes such as mergers and acquisitions are complex and powerful psychological experiences that cause individuals to react negatively or positively to such change efforts. According to Cole et al., (2006), some individuals react more positively through increased job satisfaction and increased commitment while others may negatively respond to organisational changes by resisting and engaging in negative behaviours. Organisational change theorists have argued that employees are inclined to oppose changes because it is seen as a danger to well-known modes of behaviour as well as to position and financial rewards (Armstrong, 2006).

National and Organisational Culture

Mergers and acquisitions necessitate that employees with dissimilar values and work approaches are obliged to work together and when people of different cultures come together in the worrying condition of a merger or acquisition, each views the others culture as being alien and basically distrusts them (Stahl and Voigt, 2008). Regardless of the amount of effort put in by management in making all the groups feel welcome, working relationships among these groups often tends to be frosty as each group are critical of the others values, attitudes and working behaviour. This perverted view and antagonistic opinions toward colleagues from other organisations are likely to become regular, because as dissimilarity in cultures manifest in their daily operations, typically employees from both sides are likely to attribute any failures to other organisational member's resulting in post-merger conflict or culture clash (Van Dick et al., 2006).

The coming together of two different organisations during the process of a merger or acquisition exposes the innate cultural differences among these organisational members. Culture related stress, conflict and resistance are said to be high during periods of M&A because employees are compelled to discard their longstanding culture and absorb a new one (Buono et al., 2002) which is likely to be the case in this merger. According to the social identity theory human beings derive much of their self-thought and perceptions of self-worth from their job by seeking justification of their value through recognition, advancements and compensation and the interruption caused by a merger activity interrupts the attainment of these aspirations leading to anxiety, fear and resistance (Weber et al., 2006).

Culture clashes have been associated with poor post-merger performance (Buono et al, 2002; Chatterjee et al, 2002; Datta, 2001) whereas cultural compatibility has been considered crucial for successful merger and acquisition (Cartwright and Cooper, 2003). According to Birkinshaw et al. (2000), harmonious and similarity of culture are likely to lessen acculturative stress at the individual level, and thus enhance the integration process. This is because the influence of culture on people is very strong and certainly affects business practices, managerial styles and human behaviour.

This merger is between a UK and an Iraqi company which presents huge differences in national cultures which invariably will impact on the successful implementation of the merger. This is because the merger will entail some absorption and redesign of the structures and operations of the Iraqi company and as such will involve assimilation of the values, standards and visions of our company here in the UK. This will likely lead to resistance from employees from the Iraqi company because of different national culture is vital to a group's distinctiveness and an understanding of reality and as such it is not surrendered easily (Mead and Andrews, 2009). It is expected that employees from the Iraqi company will resist attempts to give up their culture and assimilate to the British way of doing things.

Furthermore, leading values in a national culture have deep consequence on organisations and organisational behaviour, therefore, different communication, organisational and managerial styles are likely to present huge difficulties in integration and implementation of the merger (Mead and Andrews, 2009). For example, Iraqi organisations have a strong centralised hierarchical structure with strong patriarchal influence as opposed to the UK that has a less decentralised system. These differences will likely affect the modes of communication between the two organisations because in low-context cultures such as the UK where written text is treated more reliable than speech, greater reliance may be made on written documentation which provides input to meetings where plan is discussed. Whereas in high-context cultures such as Iraq, the order might be reversed and documentation prepared only after a spoken agreement is reached by parties (Mead and Andrews, 2009). This is likely to lead to delays in reaching plans, tension and conflict during the integration of the merger process.

Furthermore, national culture influences managerial styles, in low-power distance cultures such as the UK where organisational structures are decentralised, plans are communicated, suggestions and comments are encouraged so as to build consensus. Whereas in high-power distance cultures such as Iraq, subordinates may not expect to be informed of the merger plans only top management are consulted and subordinates informed. This might make it difficult to engage, secure the commitment and a sense of ownership of the change plans in the Iraq side of the merger because the notion of participation is discouraged.

Thus, in order to overcome these national culture difficulties a change of culture is required. The Lewin (1951) model is most appropriate in this circumstance as it enables us to diagnose the problem in order to come up with a suitable problem technique. In any situation, such as in mergers and acquisition, there are forces that push for change and those that hinder it. Cultural problems require behavioural modification in employees and management as such, there will be need to unfreeze those behaviours, attitudes, beliefs and norms that are inimical to the achievement of the merger activity among employees of both organisations.

This tactic is more productive because to increase the driving forces without consideration to restraining forces may increase pressure and tension. After unfreezing these behaviours, it becomes imperative to create new attitudes or behaviours that will facilitate change by developing new responses based on new information. After the consummation of the merger activity, there is the need to refreeze to ensure lasting effects of the new behaviours in the new entity and reinforcing them through support mechanisms so that a new organisational culture is further deepened in the organisation (Kast and Rosenzweig, 2005).

Communication

One of the major problems of M&A concerns the lack of effective communication with employees regarding the process. M&A entails radical changes in both the structural and operational system of an organisation and absence of communication during this period is linked to the failures of most merger and acquisition. This is because during periods of transformational changes such as mergers and acquisitions, employee's responses of stress, antagonism, resistance, anxiety, and worry are typically ascribed to the absence of information (Cartwright and Cooper, 2002). During periods of change there is an apparent insatiable thirst for information, but what is obtained in many M&As is that employees are normally in the dark about the process, and often learn about it on a less than appropriate basis, through the press or through shared gossip (Mead and Andrews, 2009). Therefore, in the absence of regular appropriate communication misreading's and gossips fill the vacuum leading to distortions or misrepresentations with regard to the M&A process resulting in resistance or turnover intentions (Teerikangas and Very, 2006).

Research by Schweiger and DeNisi (1991) revealed that the mere announcements of merger and acquisition plans, particularly of those characterised by a weak communication, increases uncertainty, stress and absenteeism of employees as well as decreasing job satisfaction, commitment and intention to stay in the new organisation. Communication helps build trust between management and employees and an individual's need for information significantly increases during times of transitions such as during M&A because of the many uncertainties involved (Kramer, 2009).

Communication is an essential element in managing M&As and the lack of it is indeed the primary reason for most of their failures (Bert et al., 2003). This is because communication affects the employees' ability to accept a new culture, continue with the change process as well as dealing with stress (Appelbaum et al., 2000). As such effective communication during this M&A process are likely to reduce rumours, confusion or erroneous expectations among organisational members. This view is supported by an empirical study by Lazaridis (2003) which suggests that the opinion of employees regarding the M&A process from a communication perspective is that employees believe that the failure to achieve integration following a merger or acquisition is because often management neglects to keep employees up-to-date about discussions and changes that could impact on their work.

Ironically, most mergers and acquisitions are more often than not carried out in an extremely top-down manner, in that employees are not consulted nor appropriate communications established to reduce uncertainty and confusion. Although true communication may be difficult to achieve because of inherent difficulties associated with effective communications (Appelbaum et al., 2000), these difficulties can be overcome by the role of leaders in the organisation. This is because precise, timely and valuable communication during M&As provided by management with regard to the rationale for the merger or acquisition is positively correlated with employees' acceptance and satisfaction with the process (Raukko, 2009).

Conclusion

Organisations have to respond swiftly to threats from both their internal and external environment if they are to survive and grow. Mergers and acquisitions are corporate level tools employed by organisations in expanding to new product portfolios, entering new markets, cutting costs and attaining leadership positions in their industry. However, while the benefits of merger and acquisition activity has been highlighted, it is noted that the majority of them fail owing to human and cultural issues. Therefore, it is the capability to achieve the integration process, particularly the socio-cultural phases in the most efficient and harmonious way that is the key element which will determine the degree to which synergies are a success of the merger and acquisition activity that is attained.

Recommendations

Engagement: one of the reasons attributed for the high rate of unsuccessful M&As is the difficulty in integrating different cultures leading to resistance. Therefore, employee engagement during M&A will lead to the creation of mutual accepting of and backing for the need to end the long-standing practices and accept new organisational changes. This is because engagement weakens the forces against change by engaging employees in a rational way towards accepting the business necessities demanding an end to the old ways by finding and removing barriers to the adaptation process. Beckhard (1969) suggests that a change programme must incorporate goal setting, develop a new vision and organisational conditions for the desired change. Thus, by engaging employees management is able to appreciate the anxieties and concerns of organisational members and as such, assisted by this understanding, are able to take the appropriate approach in redressing their fears and anxiety. Engagement of employees of both Manchester and Iraqi organisations will enable management explain the need for this merger and the likely changes that may arise, this process is most likely to reduce tension and hostility leading to less resistance.

Therefore, generating positive beliefs and attitudes among employees during periods of change is crucial for successful change intermediations (Eby et al., 2000). As such, the fundamental issue in mergers and acquisition management is how best to engage, involve and motivate organisational members and maintain their knowledge resources during the period of the M&A process. This is because when management engages employees during change processes such as mergers and acquisitions, employees displayed deep emotional connection to their workplace, improved performance, increased motivation and commitment and less resistance to change (Saks, 2006; Wagner and Harter, 2006). Furthermore, research has suggested that firms with higher levels of employee engagement during M&A have a high rate of achieving success (Shuck and Wollard, 2010).

Communication: Communication is critical to managing people issues during complex organisational change. A regular two-way communication that is open and well-timed is known to counter the feelings of mistrust, fright, resentment and frustration common during periods of organisational change such as mergers and acquisitions (Kramer, 2009). Effective communication will enable organisational members abandon deep-rooted organisation culture and embrace new changes that will allow the organisation to realise the value of the deal quickly. Thus, a comprehensive communication strategy is fundamental to the M&A process as it serves to manage employee expectations during implementations by announcing the planned intentions of the organisation before the merger taking place. In the absence of this important step, employees have little chance of understanding or judging the organisation's intentions and this are likely to result in lack of trust, negative perceptions of the M&A process, decline of management credibility, increased employee negative behaviours and increased intention to leave the organisation.

Appendix 1

Strategic Plan of Action
Aim:

1) Engagement strategy that will lead to effective consultation with key stakeholders before, during and after the change process. In CIPDs7c of Change, involving employees during periods of change can improve results as it enables the organisation understand how the change will impact on them (Molloy and Whittington, 2005). As such this knowledge gained makes it easier to manage the influence that stakeholders may have over the process, such as resistance. But with careful consideration, potential misunderstanding or conflicts of interest with difficult stakeholders can be avoided.

As such, the engagement strategy will entail meeting face-to-face with senior management of the company from both companies in Manchester and Iraq so that they can buy into the merger and acquisition process. Also, meetings are to be organised with union officials from both companies in order to explain the benefits of the merger activity and how it is likely to impact on them.

To further deepen the engagement strategic plan, a workshop is to be organised in Manchester and Iraq involving all employees and management to deliberate and interact about the impending change and solicit for the cooperation of all employees.

2) Communication Strategy: regular, consistent and we-focussed communication is critical to the success of any change activity (CIPD, 2005). As such communication about the impending merger and acquisition activity ought to be cautiously arranged and articulated so that needless fears are dispelled. Therefore, the communications strategy will entail the reasons for the merger and its implications are communicated to employees of both companies in a way they can understand and accept. According to CIPD (2005) change management strategy, two-way flows of communication between management and different stakeholders have to be established. This type of communication will enable management to keep employees informed of developments regarding the merger process as well as allowing employees to respond promptly with their views about the process.

Thus, the communication strategy will involve maintaining regular communications through weekly meetings, daily briefings, team meetings, monthly newsletters, frequent e-mails, notice boards and magazines. The significance of regular communication is to make the impending merger and acquisition activity real, familiar and personal. Kotter (1995) suggested that in managing transitions, it is vital that organisations use all conceivable means to communicate the new vision and strategies to organisational members.

3) Aligning Leadership: effective change management programme requires commitment and strong leadership. Therefore, it is crucial that those responsible for managing the merger and acquisition activity such as top management, line management, programme and project managers are aligned with the new vision and objectives of the organisation. As such for the success of the present merger and acquisition activity, management from both sides must lead by example, by exhibiting new ways of behaviours and working. This alignment between leadership and new organisational realities sends a powerful message to people in the organisation that the change is real and thus asking everyone to get on board.

Objectives:
The objectives of this plan is to develop a clear strategy and policy to guide the management of the merger and acquisition process in a clear and coherent manner that will inform and align leaders with new the new organisational vision and structure. Beckhard (1969) suggested that a change programme should include the setting of goals and definition of the future organisational position wanted after the change. Also, that it is important to develop strategies and action strategies for handling the change process with the hindsight of examination of the elements expected to affect the introduction of change.

Responsibilities:
Top management: aligning change with organisational strategy, providing leadership to make change happen, and maintaining internal and external communication regarding the merger and acquisition process. In addition, monitoring and evaluating the implementation of the merger process.

Line management: Ensuring that teams understand the rationale, nature and implications of the merger and acquisition activity by cascading regular information to teams as well as preparing them for implementation.

HR department: Examining the peoples' issues involved in the merger and acquisition process, redefining the roles, jobs and skills of employees to fit into the new organisation. A crucial role for HR during periods of change is in finding ways of involving stakeholders throughout the organisation. Thus, HR should ensure that people in the organisation are involved early to ensure their buy in. This can be achieved through, informal conversations, focus groups, task forces and establishing hotlines. Also, in organising training and development of employees involving, adapting and refining HR policies, for examples, careers, rewards, redefinition of the psychological contract, building knowledge and learning of change as well as communicating and involving staff.

Timescales: The implementation of this change programme is immediate as it involves three stages, before, during and after the consummation of the merger activity. Inform leaders and employees, three months before the merger to avoid people in the organisation hearing it from outside sources which may affect their morale and trust in the organisation. Continuous communication is recommended throughout the duration of the integration and implementation stage to inform stakeholders of the progress of the merger.

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