Strategies for Managing Human Resources During Mergers and Acquisitions: An Empirical Investigation

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Executive Summary
Recent evidence suggests that many mergers and acquisitions have not achieved the strategic and financial benefits that acquiring top managers have expected them to. A number of reasons have been advanced for this, including lack of strategic fit between the combining firms, excessive purchase prices and organizational and human resource problems. This article explores the last cause in detail and provides an empirical investigation of how 80 firms affiliated with the Human Resource Planning Society attempted to manage or avoid these problems. Particular areas examined in this investigation include pre-merger planning and post-merger implementation.

It is apparent to most top managers that mergers and acquisitions (M&As) have become a major part of American Business. As evidence, "over 12,000 companies and corporate divisions—worth about one-fifth of the market value of all traded stocks—have changed hands" since 1983 (Lubatkin, 1988: 295). Despite the proposed anti-merger bills in Congress to limit these forms of corporate growth, many top managers believe they will continue well into 1990 (Mergers and Acquisitions, 1987).

The strategic imperative underlying many M&As is to create "synergy" (i.e., strategic and operational advantages that neither firm can achieve on its own) so as to improve the competitive position and thus improve the performance of the combining firms. Although this often stated goal for merging or acquiring seems logical and achievable, the fact is that many M&As have not created synergy or resulted in the financial benefits that acquiring top managers have expected them to. Specifically, while shareholders of acquired firms have gained significantly, shareholders of acquiring firms have gained minimally (Jensen & Ruback, 1983). A study by Fortune magazine (Magnet, 1984) estimated that two-thirds of the corporate diversification programs they reviewed would have produced better financial results if the company had invested its capital in certificates of deposit in commercial banks rather than in making an acquisition. A study by the Hay Group indicates that about one-third of all acquired companies are sold within five years and approximately 90 percent never live up to expectations (Lefkoe, 1987). Beyond financial performance, M&As, often create significant trauma for the employees and managers of both acquiring and acquired firms, often resulting

\footnote{There are many reasons for M&As other than for developing competitive advantages. These include achieving tax savings, exploiting undervalued assets, removing management inefficiencies, managerial hubris and empire building, hostile takeover defenses, etc. The focus of this article, however, is on those M&As that attempt to develop competitive advantages through strategic and operational synergies.}
in additudinal and productivity problems and turnover of valued personnel (Sinetar, 1986; Schweiger, Ivancevich & Power, 1987; Marks & Mirvis, 1985; Ivancevich, Schweiger & Power, 1987; Walsh, 1988).

Given the high costs of transacting M&As and their less than encouraging results, it is essential that top managers understand, prepare for, and manage those factors that potentially contribute to success or failure. One contributing factor is the identification of proper strategic fits between the combining firms, that is, synergies that create competitive advantages. Unless a merger or an acquisition creates some form of synergistic benefits (e.g., product lines fit, improved "economies of scale" or "scope," resource sharing among business units, cost reductions through the elimination of redundant staffs and operations), it is unlikely that it will benefit the companies involved (Porter, 1985).

A second factor is the determination of an appropriate purchase price. If the costs of transacting or purchasing another firm exceed the potential benefits, the deal is not likely to be financially successful for the acquiring firm. Traditionally, top managers have done reasonably well at identifying strategic fits and moderately well at negotiating purchase prices.

A third factor that is essential to success is the actual achievement of fit through the integration of two firms. Although fit may be relatively easy to envision, it is extremely difficult to achieve in practice. Often, many firms do not realize all the synergistic benefits and the competitive advantages that they hoped for because top managers failed to consider or were unable to manage the numerous complex organizational and human resource issues that arise during M&As (Mirvis & Marks, 1986). This may certainly explain the disappointing results that have been achieved.

Although it is difficult to isolate the relative contribution of each factor to the success of M&As, it is apparent that organizational and human resource issues have not received the level of attention from top managers that they should. That this is apparent is best reflected in the numerous articles that have been written by academics, seasoned practitioners and consultants during the past five years pleading with top managers to pay greater attention to managing these issues (e.g., Marks & Mirvis, 1985; Gerard, 1986; Kanter, 1987). Moreover, a recent study of 101 CEOs and senior managers of large companies by the management consulting and executive search firm Egon Zehnder International found that the most commonly cited cause of acquisition failure was "people problems" (Mergers and Acquisitions, 1987). In interviews we conducted during the past five years with numerous acquiring top managers we found that almost all of them reported that they underestimated the impact of, and the difficulty in managing, organizational and human resource issues. Asked if they would manage future mergers and acquisitions differently, most responded that "people" issues would have much higher priority in the future than they had in the past.

To help top managers successfully manage the M&A process, we set out about five years ago to learn what firms were actually doing to manage the organizational and human resource issues. We began by searching for and reviewing all the literature that we could find on the topic. Most articles and books are in agreement as to the problems faced during M&As and the basic prescriptions for avoiding or solving them. The activities involved in managing the M&A process basically