

IMPACT OF ACQUISITION ON EMPLOYEE AND MANAGEMENT OPERATION – THE CASE OF EPCM ORGANISATION IN RSA

Kelani, Yakubu; Rwelamila, Panteleo D.

Graduate School of Business Leadership, University of South Africa, Midrand, Gauteng, South Africa

Abstract

Merger and acquisition (M&A), an emerging trend within organization practice as preferred vehicle for expansion and enhancing company performance. Past research conducted shows that cultural fit and change management plays a significant role in M&A success. It further posited that high failure rate of Merger and acquisition results from companies failing to critically examine the ramifications of cultural fit and appropriate change process. This paper examines the impact of the acquisition of Engineering Procurement Contract Management South Africa (EPCM SA) by an international entity on the employees and management operations. The research objectives are to conduct a literature review to explore the existing knowledge about the impact of acquisitions on employees and management and an empirical study on the impact of EPCM SA's acquisition on its employees and management. This paper draws on primary data from a sample of 300 employees of the newly formed entity through the use of self-administered questionnaire and data statistical in nature. Findings revealed that, acquisition negatively impacts employee's job satisfaction, operation performance, resulting in large employee turnover. Further research is suggested in the areas of cultural bridging and whether the nature of an organisational culture influences the type of change model and the change process that are adopted for acquisitions.

Keywords: Acquisition, Cultural fit, Change process, Employee satisfaction, Merger

1 Introduction

In general, organisation seek merger and acquisition as the preferred vehicle for growth strategy and market competitiveness. According to UK Construction news (2000), the Egan Report (1998) is commended for driving M&A activity in the construction sector in the past two decades despite the effects of the global recession. Trend towards consolidation in construction businesses is growing stronger with notable high-profile UK acquisitions including Scott Wilson by URS, Eaga by Carillion, and Davis Langdon by AECOM.

According to Cartwright (2006:1-5), organisation in seek to increase their market share either through organic growth or by means of merger and merger and acquisition (M&A).In South Africa(SA),M&As emerged after the Post-post-apartheid era. This includes trends like hosting of the 2010 Soccer in South Africa. Construction activities i.e., modern stadia, roads and hotels that were constructed in preparation for the FIFA World Cup, resulted in numerous mergers in the construction sector. Prominently in the construction sector was strategic decision of Group Five South Africa to acquire Quarry Cats, a construction material business sector (Group5 annual review 2009:4). The intent of the acquisition was twofold: firstly, to increase the

multiple margin stream baskets and secondly, to enhance the group performance (Group5, 2009). Bandrick and Karpaty (2010:211-224) state that researchers have mixed reactions to the effects of acquisitions. On the one hand, authors such as Conyon et al. (2000) argue that acquisitions lead to job losses and a cultural misfit within the acquired firms because the international entity tend to be less committed to the host economy's labour requirements. On the other hand, an alternative school of thought, as posited by Carrillo (2011), maintains that acquisitions strengthen the competitiveness of the acquired firm because it benefits from technology transfer, which in turn improves the management, operations performance, growth and profitability of the firm. Clearly, this contradiction needs further examination. Against the background of this contradiction, in the literature, it is important that managers and policymakers understand the effects of M&As on employees and business.

EPCM SA is of the concern that the acquisition by the international entity lacks full alignment of a proper acquisition procedure and strategic plan, which resulted in lack of commitment and productivity. For this reason, this study analyzed the impact of an international entity acquisition of Engineering Procurement Contract Management South Africa (EPCM SA). The main objective of the study is to assess the impacts of the acquisition of EPCM SA by an International entity on employees and management operations. However the study identifies the following specific objectives which are: investigate the importance of cultural due diligence between the acquiring company and the target company; investigate if the transition was understood and owned by all the employees and evaluate the relationship between changes in the organisational structure and the management leadership style of EPCM SA.

The study however intends to answer the following specific research question:

- (i) Is there any cultural relationship between EPCM SA and the International entity?
- (ii) How was change communicated and managed during the acquisition process?

The authors adopt a triangulation research method approach for the study using a predefined group of 300 participants considered more appropriate for the study and a sample from various disciplines in the new entity. A self-administered questionnaire is adopted and data obtained is analysed using a descriptive and inferential statistics. The results of this study clearly reveals that M&A impacts negatively on cultural fit and change process, and if not critically examined by the parties concerned, it may impact on the success of the M&A. It is imperative that Leaders of organisation embarking on M & A within the construction sector need to take cognisance of cultural fit and change process required between two entities before embarking on M&A.

2 Theory and Practice of Mergers and Acquisition

In general, organisations worldwide seek to increase their market dominance and competitiveness through Merger and Acquisition, a growing strategy for organizations. It is critical and timely to identify key planning steps that will assist organisation leaders and companies' boards to achieve M&A success. There are four types of acquisitions, namely: horizontal, vertical; conglomerates and congeneric acquisition (Green and Cromley, 1982:359).

Different acquisition is used to achieve different objectives or strategies.

2.1 Types of acquisition

2.1.1 Horizontal acquisitions

This takes place to expand control over business activities in the same industry segment and leading to a simultaneous increase in market share and the elimination of competition. Horizontal acquisition gives higher edge over competition (Green and Cromley, 1982:539; Weston, Chung and Siu, 1990:5).

2.1.2 Vertical acquisition

This occurs when a company acquires another company that is in different stages of its production operations (Weston et al., 1990:5). It can be further classified as backward and forward acquisition (Brealey et al., 2008:883).

2.1.3 Congeneric acquisition

This can be defined as acquiring a company that is in the same industry, but is neither in the same line of business nor a supplier or customer (Giltman, 2009:767). This occurs between two companies in unrelated lines of business (Brealey *et al.*, 2008:883; Giltman, 2009:767).

2.1.4 Conglomerate acquisition

This is expansion by acquiring companies into new and different product lines (Green and Cromley, 1982:359). One of the objectives of a conglomerate acquisition is to reduce business risk by acquiring companies through diversification of its interest.

The authors view that the horizontal acquisition definition best describes the acquisition between EPCM SA and the international entity acquisition process. Hill et al (2003) document the following as reasons why organisations take part in Conglomerate acquisitions as: Increase market dominance, Overcome entry barriers, Increase diversification, Merger for risk spreading and defensive drivers.

2.2 Challenges Facing M&As

Hill et al. (2003) mention some of the inherent challenges of the acquisition process include: lengthy acquisition processes; integration difficulties; and inadequate evaluation of targets. Gilkey (1991) argues that the high failure rate of M&As is mainly because they are still designed with business and financial fit as the primary condition, leaving psychological and cultural issues as secondary concerns. Some studies have focused on identifying the specific reasons for the failure of mergers or acquisition, for example Gadiesh and Ormiston (2002) list five cause of acquisition failure as: Poor strategic rationale; Mismatch of cultures; Difficulties in communicating and leading the organization; Poor integration planning and execution; and Paying too much for the target company.

Giving the importance of aligning strategic planning policy to M&A strategy, it is crucial to ensure a diligent process between organisation strategic plan and M&A plan. Sinickas (2004) defines due diligence as where each party tries to learn all it can about the other party to eliminate misunderstanding and ensure the price is appropriate. The author's view is that effective due diligence should be a comprehensive analysis of the target company's entire business, not just an analysis of their cash flow and financial stability has traditionally been the case.

2.3 Impact of acquisitions

Bajaji (2009) argued that, the role of the Human Resources Department (HR) teams in acquisition integration is encapsulated in two sub-processes: The first sub-process enables the integration of people through culture-building exercises, communication and facilitation of learning. The second sub-process enables the integration of the human resource practices and processes through a combination of structures, reward systems, service conditions and policies on employee relations.

2.3.1 Employees

Froses et al. (2008) found that employee satisfaction during an acquisition depends on the strategy that is used during the integration process and whether the integration meets their standards or expectations solely depends on the level of their resistance to the change.

According to a survey conducted by Chambers and Honeycutt (2009 :17), an acquisition causes low morale among employees, which in turn leads to reduced levels of commitment. This further confirms Conyon et al. (2000) views on acquisition.

2.3.2 Management

Angwin and Meadows (2009) found that acquisitions have long-term effects and significant impact on executives who were hired after the acquisition, and a significant portion of the incumbent executives who departed after the acquisition left involuntarily. Krug and Aguilera (2005:121-151) attest that in the long run, acquisitions create long periods of instability in the target company's top management team.

2.4 Organizational culture and acquisitions

Culture is defined differently in various disciplines Robbins and Stylianou (2003) as: "A set of values that influence societal perceptions, attitudes, preference and responses." Mercer (2006:1365) indicates that cultural integration is aimed at shaping a new culture through mutual absorption and strengthening of the various cultural strains via effective communication. According to Froses et al (2008: 97-108), it has been observed that cultural integration is closely related to personnel issues and employee change is crucial in an organisational culture. The post-acquisition culture must be determined in the beginning, and then the integration process can be implemented by using the best path to reach the desired goal (Dunaway, 2008). Cultural integration is not merely merging different cultures into one; it is a process of establishing the new organisation model by absorbing, selecting and integrating the cultures of two different organisations that are becoming one organisation. Culture mapping is also used to understand the similarities and gaps between national and corporate styles. A fundamental element of cross-culture management, as further argued by Abel (2007:1-5), is respecting and understanding another culture, attaching importance to communication and adapting to new tools. A survey conducted among senior executives worldwide who were involved in acquisitions revealed that 47% considered achieving cultural alignment a critical people issue, while 62% thought that ensuring effective communication was the most valuable human factor for acquisition success.

2.4.1 Organization change management

According to Peterson and Voules (2007), different paces and patterns of change and change management give rise to different kinds of internal and external difficulties and resistance to change during an acquisition process. Changes create the impression that employees and management will lose their jobs, as a result of a new strategic direction that the organisation takes. Kotter (2007) state that if change management is poorly handled, change impact employee and management productivity and erode employee and management engagement. The literature documents several models of change management, three of which can be summarised as follows: Kotter's eight-step model (1995) change process allows an organisation to develop a consistent planning and implementation framework that sets out clear objectives for the relevant stakeholders; Adakal's model (1999) an outcome-oriented approach to facilitate individual change to help leaders realise their objectives quickly and completely; Lewin's three-step model (1943). Prior to a change process, the change agent should understand why change must take place.

3 Research Methodology

The combination of a quantitative and qualitative approach was adopted in this study. Leady and Ormrod (2010) argue that the mixed method design with both qualitative and quantitative elements often provides a more complete particular phenomenon than either approach could

have done alone. This methodological design is particularly useful in expanding our understanding and knowledge of merger and acquisitions in term of its impact on human behaviour and the issues surrounding cultural integration. This exploratory study uses both the qualitative and the quantitative method implying that the research provides a more complete picture of a particular phenomenon, often referred to Mixed-method (Leedy and Ormrod 2002:97).The self-administered questionnaire interviews a target sample of three hundred participants consisting of three distinct groups within the entity: employees, human resources and management of both entities. The various strata considered for sampling was determined by taking into account all the departments that constituted the core business of EPCM SA. Table 1 below shows the proportions and numbers of respondents from all the major business units.

The major topic covered in all the interviews is (i) How is change communicated and managed during the acquisition (ii) examine if the transition was understood and owned by all the employees (iii) Is there any cultural relationship between EPCM SA and the International entity? (iv) Identify if the M&A experience was satisfactory (v) Is there a cultural relationship between EPCM SA and the international entity.

Table 1. Sample selection of participant Interviewed

Business unit	Total population	Sample size
Engineering	200	50
Project management	40	26
Procurement and Contracts	35	24
Operations	925	191
Total	1200	291

4 Findings and Discussion

The research present the synthesis and analysis of the findings of the study, building on the statistical analysis and data obtained from the acquisition themes as used in the questionnaire. Table 2 below is centred on level of satisfaction and further discuss the impacted on employees and management operation post acquisition between EPCM SA and the international entity.

Table 2. Acquisition themes used in questionnaire and level of satisfaction

Acquisition factors affecting employee and management operations	Level of satisfaction	Mean satisfaction level
Organisational Culture	Low satisfaction	22%
Communication	Low satisfaction	48%
Departmental integration	Dissatisfied	39%

* Low satisfaction 0% -50%

4.1 Organisational culture

The cultural fit after the acquisition was unsatisfactory for 78% of the respondents, while 22% was moderately satisfied with it. The new company's policies and procedures were unsatisfactory to 42% of the respondents and the majority (56%) of the respondents were moderately satisfied .on the overall, the data collected showed the cultural assessment was not effective and the cultural integration plans put in place were misaligned. It is evident from the above that there was no cultural relationship between the two organisations.

4.2 Communication

The major weakness in the acquisition process was lack of adequate communication, which was evident in the comments of the majority of the respondents who indicated that they had learned of the acquisition through informal meetings and discussions. 51% of the respondents were unsatisfied, 48% was moderately satisfied and only 3% found the communication model very satisfactory. There were no trust, transparency and engagement on the part of management and HR.

4.3 Departmental integration

EPCM SA's employees' levels of satisfaction and morale were low as a result of that the instability of the business created by the acquisition. The integration of co-workers was unsatisfactory for 59% of the respondents and 39% was moderately satisfied. The levels of job security were low for 57% of respondents, while 2% was very satisfied with their levels of job security after the acquisition and little clarity on employee roles and responsibilities has resulted in the inability of employees to adapt to the new culture and systems of the new entity.

4.4 Change management and time frame

Change could either be planned or emergent, the psychological challenges that was noticeable among co-workers because of the acquisition include the threat of job loss was highest (93%), followed by a sense of insecurity (89%) and job changes (71%). A sense of uncertainty was noticed by 39% of the HR respondents and social welfare concerns were noticed least (7%). Evidently, the assimilation time frame was not enough to give EPCM SA ample time to understand the new entity systems before they were implemented. The project delivery assimilation time was overrun due to the little or no time allowed for employees to adopt the new project integrated system, this indicates that Adakal's model (1999) was adopted and explains why the rapid integration and assimilation process was misaligned as shown in table 3 below. Before the acquisition, investment was between 31% and 45% (as mentioned by 39% of the managers); and foundation building investment was between 46% and 60%, rapid integration and assimilation investment between 31% and 45% according to 39% and 55% of managers respectively.

Table 3. Time resources invested in the transition process

Modal classes	Pre-acquisition	Foundation building	Rapid integration	Assimilation
31%–45%	45%		39%	
46%–60%		52%		55%

Furthermore, given that the acquisition is still on-going after two years, the level of uncertainty regarding the roles of management and employees of EPCM SA within the new entity further support Conyon et al. (2000)'s view on acquisition.

5 Conclusion and Further Research

The main purpose of this study was to determine and evaluate the impact an international entity acquisition of EPCM SA had on employees and management operations. The research paper conducts a literature review to explore the existing knowledge about the impact of acquisitions on employees and management and an empirical study on the impact of EPCM SA's acquisition on its employees and management operations, analysing the research result and their outcomes built on the data obtained through the survey questionnaire.

M&As have a very long history; and has been in existence at least since the 1900s. The introduction of globalisation has strengthened corporate companies emphasis on the need to create a multi-national organisation. However, many organisations are under the impression that implementing the M&A process is quick and easy and they often underestimate the level

of due diligence, power of cultural fitness and change management required to integrate organisations in a way that impacts positively on employees and management operations. It is important that organisations assess culture fitness, systems integration and the prevalent communication model and planned change management. The following findings and conclusion can be drawn from this study:

5.1 Existing organisational culture post acquisition

The study found that, the current culture of the organisation is a “misfit culture”. This means that the integration of the two cultures into the new organisation has not yielded employee and management satisfaction. The management of the new organisation has failed to focus more on bringing about cultural integration through an effective change process in the new organisation by focusing on and planning market penetration and diverting risk. It is recommended that the management of EPCM SA revisit the three key themes of cultural bridging fundamentals (legitimacy, effectiveness and the future) as it is in these three areas that leaders must develop an understanding, not only of the approach favoured in their own corporate culture but also of that of their future partners.

5.2 Existing employee satisfaction

The study found that, the overall employee level of satisfaction within the organisation is very low. This was the dominant view obtained from the research findings and based on the continuous drift of the acquisition process across the organisation over the last two years. The study recommends that, in changing employees’ perceptions for stability and commitment within the new entity, HR implements an awareness programme for employees on the opportunities that are available within the new entity and what makes the new entity a great organisation to work with.

5.3 Relationship between organisational culture and employee and management productivity

The results revealed that there is no relationship between culture and productivity among the employees and management in the new organisation. The research results show that the management’s leadership style was weak and contributed to the poor cultural integration. It can be assumed that similar organisations that undertook an acquisition in the South African construction sector will have the same result for cultural integration, indicating no relationship between the organisational culture and employee and management productivity

5.4 Effect of organisational culture on employee productivity

Organisational culture was found to influence and impact employee productivity. In the study, management witnessed reduced levels of productivity and instances of sabotage. This means that the organisation’s culture influences the productivity rate of employees and plays a role in whether the organisation can execute its projects timeously and within the stated budget. It can be assumed that a similar organisation in the South Africa engineering consulting sector will have the same result – that organisational culture influences employees’ productivity.

5.5 Effect of communication on employee and management operations

The study found that, the organisation’s communication model influences and impacts employee and management operations. The communication model in the new organisation reflects a bureaucratic leadership style. Communication flow is under strict control and this causes employees and management operations to be easily questioned. An open democratic communication model is the most suitable model for an organisation that strives to be the leading engineering and consulting company in South Africa.

6 Recommendations for future research

1. Future studies can examine how government regulations and policy influence the success and failure of M&A's and strategic alliances between multinational organisations and organisations in South Africa.
2. Future research can focus on the impact that cultural fit will have on a strategic alliance/partnership, instead of an M&A, in similar industries in South Africa.
3. Future studies can focus on determining if the nature of an organisational culture influences the type of change model and change process that should be adopted for M&A.

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