HEERA

INSPIRING WAVES OF CHANGE

THE HUMAN FACTOR IN MERGERS

INTRODUCTION

The current economic climate in Malaysia has led to many companies experiencing difficulties from a business point of view. One of the remedies, which seems very amicable presently, and with government support, is for these organisations to merge. This is especially so in the banking and financial sectors, which have been greatly affected by the economic downturn. From a financial standpoint, the decision to merge makes good business sense indeed. Unfortunately, most of the attention has been focused on the financial and legislative aspects. The human resources, widely acclaimed as an organisation's most valuable asset, barely gets a mention.

WHY MERGERS FAIL?

Most mergers break down because of incompatibility. Initially there will be very high expectations as the two organisations enter the partnership. There is the belief and hope that whatever differences there are, can be worked out after the merger. The truth is that management systems and organisational cultures are so strongly inbred that it is extremely difficult to modify them unless one organisation absorbs the other and imposes its way of doing things.

According to a recent study done in America, employee problems are the cause of as many as 50% of all merger failures. In this study of 40,000 employees conducted by the Human Resources Services in Chicago in 1994, the main results were as follows:

- Employee satisfaction with new policies as a result of mergers declines an average of 14%.
- The perception of job security goes down by 25%
- 80% of employees perceive the restructured management to be more concerned about company finances rather that the work force.

THE HUMAN RESOURCES FACTOR

What this amounts to is the fact that, the likelihood of success or failure in a merger may crucially depend on the manner in which the human resources are managed. Mergers will inevitably bring about changes, from the management system to company policies to the simple 'cultural' manner in which decisions are made. Hence there will be a very clear need for the employees in both organisations to change and adapt. This will naturally bring about problems as it means that they are forced out of their 'comfort zones' to learn to adapt to new ways of working.

There will also be a lot of anxiety and stress for the employees of both organisations in the period before and after a merger. This will be due to the uncertainty surrounding the conditions of the merger, and the fact that many of them would become redundant. It is most certain that this situation prevails in most of the finance companies in Malaysia, which are presently contemplating mergers. Managers will have to deal with these challenges and importantly, move the 'new' organisation beyond the anger and the loss of morale that characterises major changes of this nature.

Another reason for the anxiety is the fact that each company will invariably believe that its way of operating is the best way. Typically, the more powerful or dominating partner prevails, but only at a cost. The "weaker" partner will resist being told to change and this could lead to subtle or even open resistance that could hinder or negate efforts to merge operations.

A LOCAL EXAMPLE

In 1994, two major banks in Malaysia merged, and during the process, many of the staff of the 'weaker' bank resigned, as they were very unhappy at the way in which they were treated. This was mainly in relation to the way they were dictated to in relation to changes in job designations, re-locations, changes in job specifications etc. etc. Some of the major complaints as cited by a colleague who was involved in the merger process were as follows:

- There was a lack of information about the whole merger process, which led to numerous rumours, which in turn led to morale problems.
- There was confusion about the priorities of the two organisations.
- There was a perception that workload increased after the merger.
- There was a sense of betrayal felt by the employees of the 'weaker' bank. They felt that they had been victimised during the merger process.

There was a sense of disappointment, as staff felt unappreciated for all the good work of the past. It was difficult for them to accept that they were starting their careers all over again from scratch in the 'new' organisation.

In an overall sense the merger in this case was 'successful', although there was a very high cost in terms of employee dissatisfaction and morale which later led to a high incidence of employee resignations over a period of six months after the merger.

THE PROBLEM OF ORGANISATIONAL CULTURES

The other main problem is the question of organisational cultures. A fascinating situation evolves here as the process of merging takes place amidst a very possible scenario of two organisational cultures trying to get to terms with the other. This would take place irrespective of whether the merger is hostile or consensual. Which would be the dominant culture? It would seem logical to assume that the larger organisational culture would dominate, although this may be presumptuous. On the other hand, the dominant management would be in a very favourable position to impose its culture on the other. Dominant management here would mean the organisation that is dictating and controlling the merger.

There is a viewpoint that the imposition of one organisational culture on the other may be helpful to the whole process of mergers. This would in a way be inevitable, as the dominant management would want to impose their rules and regulations and standardisation of procedures on the other. Very importantly, there will be the transfer of managers who would bring their culture bound views and perspectives over to the other organisation.

The two organisations however, do have a choice. They could identify these cultural differences, recognise what's good about each culture and then jointly determine the management and other systems they would use in the future. They can use this opportunity to examine the different systems and consciously select a way of working that fits the vision and objectives of the 'new' organisation. Experience has however shown that this is usually never done.

In short, this will be a turbulent period, with the two cultures adjusting and jostling for dominance. This adds to the already stressful working environment for the employees, as they would be the ones who would have to adjust and adapt to the many changes taking place. The situation is made worse as all these takes place amidst a scenario of uncertainty and possible redundancy.

CONCLUSION

Companies, which are merging, must realise that they are actually attempting to blend different cultures and ways of working during the process of the exercise. In both instances, the human factor significantly comes into play. Hence mergers must not be looked at simply from a financial and legislative viewpoint. The human resources aspect is equally if not more important. Mergers, which do not take this factor into consideration, will most certainly pay a high price in terms of employee morale, resignations and in extreme cases, even sabotage. It is hoped that in the current discussions about mergers in the banking and financial sectors in Malaysia, there will be major consideration given to the human factor.