Peer Interaction in Mergers: Evidence of Collective Rumination

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Peer interaction in mergers and acquisitions

Section I:

Article Review: Peer Interaction in Mergers: Evidence Of Collective Rumination by Katty Marmenout

In the modern day world of commerce, mergers and corporate acquisitions are essential characteristics of firms seeking to, not only increase their profitability, but also globalise. However, a scholarly study of the effects of the mergers on the employees surfaced only as from the late 1970s (Buono & Bowditch 1985, p.34: Marks & Mirvis 1986, p.57). To date, more precisely, the problems and stalemates that emerge because of uncertainties associated with alteration of an organisation's personnel following acquisitions and mergers have received incredible treatment through scholarly researches. *Peer Interaction in Mergers: Evidence of Collective Rumination* by Katty Marmenout is one of such studies.

However, most of these studies speculate the impossibility of avoiding or removing the stress developed in the employees following the announcement of mergers. This partly follows because changes that accompany mergers are evolutionary in nature. Therefore, it is impossible to forecast the outcomes during the negotiations (Schneider & Dunbar 1992, p. 541). Even if managers are well familiar with the likely outcomes, they fail to communicate in most of the situations with the employees for various reasons. According to Marmenout, any inadequacy or absence of communication leaves the employees uncertain about their future (2009, p.11). As Schwiger (1991) reckons, the changes do not ruminate the employees but rather the uncertainties associated with merger announcements (p.110). As an intervention to cope with the uncertainties, employees must look for ways of lowering the levels of uncertainties including dependence on rumors and other unreliable informal communications.

Katty Marmenout's study assumes that the employees are either fully aware of the merger or very unaware. In the investigation process of the effects of merger announcement on the employees, this shows the possibility of developing two controlled groups. Katty Marmenout's work examines the gap that exists between literature that investigates the existing relationships between the characteristics of merger deals and the reactions of the impacted employees. She then goes on to develop and test a theoretical model that takes into dimension the psychological, cultural and social perspectives of employees' reactions following the announcements of mergers. Her methodologies for analysis of employees' reactions in relation to deal characteristics of mergers are both qualitative and quantitative. Her findings of the study conclude that the characteristics of mergers have not only a direct impact to the manner in which the employees react to the mergers but also determine the manner of constructing employees' altitude showing how it evolves as they discuss the matter with their crews (Marmenout 2011, p. 789). Katty Marmenout informs that the purpose of her study "was to find out more about how employee reactions to a merger evolve over time when discussing the event with colleagues and whether the characteristics of the merger deal affect this process" (Marmenout 2011, p.783).

Even though, Marmenout defends her claim that the difference between merger and acquisition is insignificant at the level of employees perception and, therefore, irrelevant in the development of uncertainties following either acquisition or merger of the firm they work for (Marmenout 2009, p.791), this work finds this as a major weakness. It introduces a gap in her study. In the most basic sense, merger implies two or more organisations coming together to form strategic partnerships. Hence, they run under one name. Acquisition, on the other hand, means a complete total takeover of one institution by another. This implies the creation of a larger power deferential in the case of acquisitions, as opposed to mergers. Although, in mergers, there exist power differentials (Numerof & Abrams 2000, p.704), arguably, the employees retain some believe that the rules governing them before the merger are still in force by the virtue that their parent organisation has a say in the new relationship. Therefore, one may speculate that employees may not feel in a complete new environment as compared to situations of acquisitions. Teerikangas and Very (2006) perhaps support this idea when they inform that, in most cases, acquisitions are more or less like mergers to minimise the threshold of eminent threats (p.45). Drawing from the approximation by UNCTA that, in most cases, only 3% of strategic deals are actually mergers (Teerikangas & Very 2006, p.47), the threshold of threats posed by the type of a deal is critical in the evaluation of the reactions of employees following the announcement of mergers and thereafter discussing the same with their peers.

However, taking into consideration the above criticism, the argument of the erosion of social strictures when two organisations integrate into one, whether through a merger or acquisition, holds substance. As discussed by Burke and Jackson (1991 p.23): Chatterjee, Lubatkin, Schweiger, and Weber and Menipaz (2003, p.45): Larsson and Finkelstein (1999, p.89): Lubatkin, Schweiger: Marks (1988, p.49): and Weber and

Menipaz (2003, p.17), any introduction of a new social structure into an existing social structure gives rise to numerous conflicts.

Marmenout argues consistently and agrees with the findings that cultural clashes are central to the diminished employee's performance in case of the formation of mergers (Buono, Bowditch, & Lewis, 1985: Burke & Jackson, 1991: Cartwright & Cooper 1993: Chatterjee et al., 1992: Marks & Mirvis 1986: & Veiga et al., 2000: Weber, Shenkar, & Raveh 1996). In fact, all the above approaches surface as complement paradigms vital for the process of evaluation of the cultural impacts perspective of employees in the mergers and acquisitions deals. Arguably, the perceptions of employees and sense making are not static as Marmenout suggests in some situations, but changes with time. Consequently, even though the employees may be lacking motivation and or engulfed in between the cloud of uncertainties and confusion, one may speculate that perhaps this cloud can get loose with time, with the employees restoring back their initial perceptions about their parent organisation in this context extending it to the whole merger. Monitoring the way in which the perceptions and reactions of employees alter with time becomes necessary as discussed by field experiments conducted by (Schweiger & DeNisi 1991: Schweiger & Goulet 2005: & Schweiger & Lee 1993). Marmenout reveals that the manner of conducting an event appraisal is critical to the determination of the manner in which an employee reaction is constructed both immediately upon announcement of a merger and overtime as the employees discusses the same with their colleagues. Barsade (2002, p. 651), Barsade and Gibson (2007), Clark, and Isen (1982) voice similar results. However, this is not only determined by individualised responses, but also work group responses (Barsade

2002, p.59) coupled with group sense making processes (Bartunek, Rousseau, Rudolph, & DePalma 2006: Luescher & Lewis 2008: Weick 1995) while not negating social euphoria (Cialdini & Goldstein 2004: Wood, 2000).

Section II

Collection and analysis of primary data on Peer Interaction in Mergers from retail sector

Introduction

The roles played by mergers and acquisitions in the creation of competitive features in organisation especially in the twenty-first century are highly undisputable. In the recent past, about 40 years ago, mergers and acquisitions have been on a constant rise both in average size coupled with their numbers (DePamphilis 2005, pp. 24-31). Various justifications account for this tremendous moves among them market, costs, government drivers and desire to seek competiveness (Child et al., 2001, pp. 9- 15) coupled with the need to increase revenues garnered by an organisation (Galpin and Herndon 2000, p. 4). Central to arriving to such decisions are the concerns of harmonising operational synergies. Through bringing together the various supplementary and complementary skills, firms in the retail sector have the capacity to gain from economies of scale as evidenced by sharing of fixed costs, which give no returns on investments. Additionally, as DePamphilis (2005) informs, “financial synergies, diversification aims, tax advantages, pursue of market power , as well as empire building, can represent reasons, not always good ones though, to engage in such costly ventures” (p.34).

Despite the fact that mergers and acquisitions seem to portray a magnificent business endeavor, with many retail sector organisations embracing it in the course of their developments, risks attributed to them are conspicuous. DePamphilis (2005) posits that despite some mergers being highly successful, findings exist that depicts that an approximation of about 50-80% of mergers “underperform their industry peers and fail to earn the expected financial returns (2005, p. 28). The reasons for failures of mergers and acquisitions are valid. They range from “overoptimistic estimates of the target company’s value which result in extensive overpaying; over slow integration of all operational levels in the post-acquisition phase; to poor, clashing business strategies impossible to merge” (DePamphilis 2005, pp. 31-32). Upon establishments of mergers and acquisitions, conflict widely contributed by breakdown of existing social structures (Cialdini & Goldstein, 2004: Wood, 2000), cultural clashes (Child et al., 2001, pp. 21-22: Gancel et al., 2002, pp.10-11) and inhomogeneous group responses (Barsade, 2002) among the employees emerge. To accomplish its objectives, this work pays some essential considerations to such issues as the effect of change of brand resulting from creation of mergers and acquisitions on the customer. The rest of the paper is in the following order: methodology, literature review, data collection and analysis, discussion of findings and the results, and finally conclusion and recommendations remarks.

Methodology

This research paper aims at offering a mechanism of increasing the magnitude of understanding of the myriads of factors that influence a development of mergers and acquisitions and then attempts to argue out whether variation of brand images arising as a result of creation of mergers and acquisitions leads to the alteration of buying behaviors of consumers in the retail sector. Deductive and inductive analysis of the gathered data from primary sources is necessary. Consequently, this mini report, mainly analyses primary data so that the work can deploy the results in making comparison with the results obtained upon conducting an analysis of the secondary available in the existing literature.

The core of the paper coupled with the setting of boundaries and limitations of the paper are also dependent on the readings of on various concepts and topics relating to peer effects of acquisitions and mergers. This work channels a particular focus more on customer's perceptions and or constructions in relation to brand attitudes that change with the creation of mergers and acquisitions.

Literature review

In the modern globalisation age, acquisition and mergers provide enormous means of ensuring growth of retail sector business to the level of acquiring adequate abilities to enable the resulting integrated entities to go globally. M &A opposed to joint ventures and or cooperative agreements, provides options that promises mega capacities of integration (Capron & Pistre 2002: Cartwright & Cooper 1996: Polley 1987). In the most general sense, acquisition entails "a shift in the controlling ownership of a company that is taken over by another company" (Nguyen & Kleiner 2004, p.447). Acquired organisations may at times remain legally in existence and contrasts with mergers in that its main aim is "total integration of two or more partners into a new unified corporation" (Child e t al. 2001, p.16). In their constitution, acquisitions are mainly unequal partnerships, which can take place in immensely hostile environments.

The acquiring company may buy shares against the wishes of the acquired organisation.

Operating companies are bought in an endeavor to take advantage of established customer base, acquire new channels of distribution and or have an opportunity to access global markets (Galpin & Herndon, 2000, p. 4-5). Despite the need to acquire competitive advantage, many companies fail after some time upon entering into acquisition and merger deals. DePamphilis (2005) approximates that M & A Seldom live up to the expectations and have failure rates up to 50 to 80 per cent" (p. 28). After expiry of five years after integration of organisations, acquisitions experience a total failure (Gancel et al. 2002, p. 4). With this light, it is necessary to determine the impacts of the announcement of acquisition and merger deals in retail sector on the responses of the buyers. The argument here is that the buyers are likely to decrease their adherence to brand loyalties once their producers enter into mergers whose their existence in future is uncertain. MacDonald adds that the shares of companies that integrate underperforms by 25 % in the short run (2005, p.3). This means that integration amplifies anxiety among the investors something that may easily be truncated into buying pattern of the integrated organisation's products.

Cultural differences between organisations that either decide to merger or enter into acquisitions deals contribute to failure of integrations. Risberg (1997) asserts, "Culture is a very complex phenomenon with various dimensions and layers, which is not necessarily shared across an organisation" (p.261). Cultural clashes are essential factors that may contribute to the inculcation of uncertainties amongst the employees and thus result in their rumination. While Bijlsma-Frankema (2001) defines culture as "values, customs and beliefs that dictate how we view and respond to our environment" (p.195), Hofstede (1997) informs, "cultures can be a make-or-break factor in the merger equation" (p.12). In the words of Nguyen and Kleiner (2003), cultures clash are "conflict of two companies' philosophies, styles, values and missions" (p.450). Upon mixing these two cultures, we need to determine the manner of constructing an employee's reaction immediately upon the announcement of a merger and overtime as the employee discusses the same with his or her colleagues (Barsade, 2002, p. 651: Barsade & Gibson, 2007: Clark & Isen, 1982). However, as discussed before, this is not only determined by individualised responses but also by work group responses (Barsade, 2002) coupled with group sense making processes (Bartunek, Rousseau, Rudolph, & DePalma, 2006: Luescher & Lewis, 2008: Stensaker, Weick, 1995) while not negating social euphoria (Cialdini & Goldstein, 2004: Wood, 2000).

Employees' responses concerning the announcement of mergers are vital in the equation of determination of consumers' responses to consumption of products of an organisation upon formation of mergers and acquisitions since anxieties associated with uncertainties arising henceforth reflect on the quality of the products they produce. In turn, this may be used to predict the likeliness of the buyers to continue adhering to their brand loyalties. Nevertheless, even if merger condition goes a long way in affecting the success of M &A in retail sector, several challenges attributed to cultural clashes may perhaps be solved by cultural bridging techniques (Gancel et al 2002, p.20).

Data collection and Analysis

This research paper considers the impacts of acquisition and mergers by considering the case of acquisition of body shop by L'Oréal. According to Clifton and

Maughan, “The degree of success reached by Body Shop’s, comparably short life span was attained without relying on conventional advertising” (2000, p. 52). On the other hand, Keller (2003) reckons that “production, packaging, merchandising, staff, sourcing policies and public relations all reflect a consistent care for the environment and people” (p. 71). As a way of contrasting, the development and growth of L’Oréal is dependent on extensive research and creation of new products-products diversification. A heavy debate took place in 2006 in which the European commission agreed with the decision that L’Oréal should acquire body shop. This acquisition has prompted a lot of scholarly research to be done based on its repercussions.

The starting point of theoretical perspective of any research lies on the secondary data implying that “the data were collected for some purpose other than the problem at hand” (Malhotra & Burks 2007, p. 94). In this context, secondary data are plausible for the purposes of coverage of the general variables crucial for consideration while collecting primary data for a specific research work. At this point, the research considers collection of primary data through the administration of questionnaires. More importantly, the theoretical frameworks form the key pillar that guides primary data collection including the determination of questionnaires, their content and their administration in the main report. In an attempt to answer the research questions, primary data must be availed. The theoretical frame works define the gaps that deserve to be sealed and since no secondary data exist for any new scholarly knowledge testing (Saunders et al., 2000); it is necessary that hypothesis testing in this report be conducted when the primary data is available. It is hypothesized that the overall effect of merger announcements is creation of uncertainties, which result in anxieties among the employees. The anxieties in turn translate to poor quality products. Buyers, in turn, respond poorly to variations in brand image dilution. The overall effect is then confusion of the old brands of individual organisations entering into a mergers and generation of new associations (Saunders et al., 2000). The perception of the buyer's changes and the buying patterns also changes.

To test this hypothesis, a case of acquisition between Body shop by L'Oréal is considered. The research is accomplished through administration of questionnaires to consumers of both organisations' products before when the acquisition deal was executed as the main source of primary data. For the case of body shop, it specialised on beauty products and reached its clients through massive advertisements. Its main consumers were young females. This work deems this group as the one that would give most reliable results about the consequence of announcement of mergers and acquisitions to consumers. When questionnaires were administered, 55% of the consumers accepted that they faired the repercussions of acquisition, as they would hate consuming anything that would blemish their skin and hence destroy their beauty. However, 10% of this were widely unaware of the acquisition between body shop and L'Oréal and really did not care so long as the quality of the beauty products remained as it was. 25 % of those who took questionnaires thought that acquisition would ensure combination of varying skilled in the production of beauty products and hence they would enjoy more quality. The remaining 20 % was unsure of their anticipation upon acquisition of beauty shop by L'Oréal and were in fact unaware that the acquisition took place.

Discussion of findings and results

After a thorough analysis of the acquired primary data and comparison of the results of the analysis with various literatures such as Keller, (2003) and Katsanis (1994), by describing the effects of mergers and acquisitions and following through various variables between operational strategies of both L'Oréal and body shop, several finding were availed. Clifton and Maughan (2000) have claimed that "In the target group of Body Shop International: females between the age of 15 and 26 years, a 100 per cent familiarity with the brand Body Shop exists" (p.63). They, further, asserted, "None of the respondents were unaware of the company; even though 13.6 per cent of the target group indicated they never bought at Body Shop" (Clifton & Maughan 2000, p.63). According to other existing literature, high degree of awareness is necessary if the consumers have to respond negatively as hypothesised to change of brand (Keller 2003: Katsanis 1994). This means that they need to be aware of the quality levels of the products they consume so that a variation in the quality produced by inculcation of uncertainties among the employees of each organisation following a merger can result to alteration of buying patterns. As Katsanis (1994) informs, "Body Shop reached high awareness by renouncing traditional marketing programs, such as advertising and promotion, publicity and public relations" (p. 6). This largely goes into improving the image and the brand of an organisation. However, "The brand and the image of a company are classified as influencing the buying behavior to a certain degree, but not as heavily as price and quality" (Apéria & Back 2004, p.67). This confirms the hypothesis that interfering with quality results in poor buying behavior as expressed by fairs of the 55% of the female group interviewed. Consequently, poor quality due to construction of negative perceptions about an organisation merger or acquisitions also goes hardy in determining the buying behavior and hence the profitability of an organisation. The rumination fueled by mergers and acquisitions consequently contributes to the downfall of an integrated organisation. Therefore, the repercussions of rumination: depression and anxiety as result of uncertainties associated with mergers makes altitudes of employees towards an integrated company worse (Haggard et al. 2011: Nolen-Hoeksema et al. 2008: Rose 2002: Rose et al. 2007). This indirectly affects the buying patterns of the consumers and hence down fall of organisation after merger and acquisition deals are implemented as explained by (DePamphilis 2005).

Conclusion and Recommendations

The discussions in this mini research paper are based on results of primary data administered through questionnaires. By drawing from a wide range of scholarly studies research in relation to effects merger and acquisition announcements on both short term and long term, the paper claims that rumination is contributed by anxieties emanating from cognitions of future uncertainness which results in social structures within an organisation break down. As consequence, group morale decreases and poor quality products are products at least in the short run. Consumers, on the other hand, are to be sensitive to quality and hence they respond negatively to the implications of merger and acquisitions on the employees of the individual organisation that enter into merger and acquisition deals. The arguments presented in the research paper recommend that firms need to consider conducting evaluation of their decisions to merge or acquire as they might have serious repercussions in future. In presenting these recommendations, the research paper unveils one of its limitations. It does not consider the advantages of forming an acquisition or a merger in relation to development of rumination among the employees. Future research should, thus, focus on evaluating the effects of mergers and acquisitions on the consumer buying behaviors in relation to competitive advantages that firms acquires through formation of mergers and acquisitions. In case the arising advantages compensate the disadvantages, then mergers and acquisitions stand as solid means of reaching the global market of business and companies in the retail sector.

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