

GLOBAL ACADEMIC RESEARCH INSTITUTE

COLOMBO, SRI LANKA



International Journal of Management (IJM)

ISSN 2424-6433

Volume: 01 | Issue: 01

On 31st March 2016

<http://www.research.lk>

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GARI Publisher | HRM | Volume: 01 | Issue: 01

Article ID: IN/GARI/ICBME/2016/200 | Pages: 01-06 (06)

ISSN 2424-6433 | Edit: GARI Editorial Team

Received: 03.02.2016 | Publish: 31.03.2016

Employee's Response to Change in a post-Merger/Acquisition

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Introduction

We sought to explore responses to change of employees within an acquiring and acquired organization. Our goal was to explore similarities and differences in attitudes of employees affected by change. We surveyed employees of an acquiring organization and employees of an acquired organization right at the time of the acquisition. Included in our survey was readiness for change along with several demographic variables.

Literature Review

Mergers & Acquisitions

Studies show that 83% of all mergers and acquisitions fail to produce any benefit for shareholders and over half actually destroyed values (Gitelson, Bing, & Laroche, 2001). Gitelson et al. encourage companies to speed the integration to reduce the uncertainty and anxiety the employees may face. Dealing with uncertainty explicitly is critical to the success of mergers and acquisitions. In organizations, many ad-hoc task forces are created to handle specific task lists and plan the tasks accordingly. Generally, more effort is placed on temporary rules and reporting relationships than the work itself. Businesses tend to face issues in this case when different levels of employees engage the tasks with varying expectations. Complicating this further such as merging two cultures, cultural differences especially make these issues complicated and harder to resolve. Gitelson et al. (2001) encourage companies to concentrate on developing clear leadership styles and adapt the best it can to accommodate all employees from each business.

Karten (2008) addresses 'the mess of change' by suggesting specific responses to the problems and growing pains associated with mergers and acquisitions. Karten said the reality is that

turbulence is a fundamental part of the change experience. When an organization replaces what's familiar and predictable with that which is unfamiliar, confusing, ambiguous, or potentially risky, people will react. Leadership may not be able to eliminate all of the turbulence; but they can minimize the duration and intensity of the turbulence thereby implementing the change more smoothly and with less hardship on employees (Karten, 2008). She goes on to suggest that the main key in handling what she calls 'the messiness' is to ultimately truly understand how people experience change and to attempt to communicate with them to further the understanding at each level. As suggested by Gitelson et al. (2001), this is not necessarily an easy task.

This is further agreement that the failures of mergers and acquisitions are often attributable to the lack of awareness of and impact from the reactions of employees. In fact, Donald and Lotz (2006) suggest that employee problems have been blamed as being responsible for a third to one-half of all merger failures (Lotz & Donald, 2006). Lotz & Donald agree with Gitelson et al. and Karten that effective communication is one of the top strategies necessary to manage the perceptions of and reactions to mergers and acquisitions.

Methods

Instrument

We borrowed the Organizational Change Recipients' Beliefs Scale from (Armenakis, et al., 2007). This scale includes five constructs including efficacy, appropriateness, principle support, valance, and discrepancy. Efficacy is how capable the organization is able to implement the change. Appropriateness includes the idea that this change is right for the organization. Principal support is the degree to how much the leaders of the organization are supporting the change. Valence describes how attractive the new change is thought to be. Two types of valence exist, intrinsic and extrinsic. Intrinsic valence includes rewards such as high decision making options by lower level employees to assist in moving the change along. Extrinsic rewards can include adopting new behaviors for the organization or implementing pay raises for employees. Discrepancy is the level at which employees see that the need for the change exists (Armenakis, et al., 2007). The scale has been shown to be both reliable and valid (see, for example, Mazur, Rothenburg, & McCreery, 2011). Following the advice of Bertsch (2009), we implemented seven-point scale width (i.e., seven Likert response categories).

Sample Frame

Our sample frame included employees, at all levels, of both the acquiring and acquired organizations in the automotive dealership industry. We will herein refer to these organizations as RF and FM. RF is the acquiring organization and FM is the acquired organization.

Analysis

Data scrubbing

We followed typical data scrubbing techniques (e.g., identifying missing data and outliers) as those prescribed or followed in the literature (see, for example, Bertsch & Pham, 2012; Croarkin, 2011; Howell, 2012; and Osborne & Overbay, 2004). These techniques allowed us to appropriately prepare the data for analysis. After the data was appropriately scrubbed, we analyzed the data. Our final response rate was a very respectable 81%.

Statistical tests

For comparison between groups, we employed one-tailed t-tests assuming unequal variances. For correlation between variables, we employed Pearson's correlation techniques.

T-tests comparing RF and FM.

Dimension	Statistics
Efficacy	RF = 5.90 FM = 6.29 Insignificant
Appropriateness	RF = 5.39 FM = 6.45 Significant at $p < 0.05$
Valence	RF = 4.89 FM = 5.29 Insignificant
Principle support	RF = 5.30 FM = 6.12 Significant at $p < 0.05$
Discrepancy	RF = 5.53 FM = 6.27 Significant at $p < 0.05$

T-tests by gender.

Dimension	Statistics
Efficacy	Male = 6.13 Female = 5.40 Significant at $p < 0.05$
Appropriateness	Male = 5.69 Female = 5.57 Insignificant
Valence	Male = 5.07 Female = 4.63 Insignificant
Principle support	Male = 5.60 Female = 5.12 Insignificant
Discrepancy	Male = 5.68 Female = 5.94 Insignificant

Correlations between age and the factors of change

Age and Dimension	Statistics
Correlation between Age & Efficacy	Pearson's $r = 0.377$ Significant at $p < 0.01$
Correlation between Age & Appropriateness	Pearson's $r = 0.515$ Significant at $p < 0.01$
Correlation between Age & Valence	Pearson's $r = 0.559$ Significant at $p < 0.01$
Correlation between Age & Principle support	Pearson's $r = 0.535$ Significant at $p < 0.01$
Correlation between Age & Discrepancy	Pearson's $r = 0.327$ Significant at $p < 0.05$

Summary of analysis

- RF responds more positively than FM in the areas of principal support, discrepancy, and appropriateness.
- Males feel they are more capable of implementing change than females.
- There is a correlation between age and the five factors of change.

Conclusions

Acquiring vs. Acquired

The results of our research is interesting in that both organizations seem to be capable of implementing the change and see the attractiveness/ benefits of doing so, yet Ryan Honda does not see the need for the change to take place or that it is right for the organization. Another aspect we found interesting is in the principal support category as the employees felt the managers of Ryan GMC supported the change better than the managers at Ryan Honda.

By gender

Overall the results of these tests yielded interesting results particularly in the category of efficacy. We found it interesting that males felt themselves more capable of implementing the change than females.

Correlations of age and change dimension

What we can gather from these results is that age is positively correlated with all five factors meaning that the older the individual is the higher their response would be for each category. Also the categories with the strongest correlations were appropriateness, valence, and principal support. It would seem that the older the individual is the better they can see the need for change, see the attractiveness in the change, and see the managers of the organization support the change.

To summarize our results from our analysis, employees of RF responded more positively than FM in the areas of principal support, discrepancy, and appropriateness. Employees at FM scored lower on principal support compared to the acquiring organization which illustrating that employees at RF felt managers/leaders within their branch supported the change better than the employees felt about their managers at FM. This key result could also have an effect in terms of appropriateness and discrepancy of FM because the perceived decreased level of support from managers can have a direct influence on the lower levels of appropriateness and discrepancies on employees. This highlights the importance of a manager's role in spreading change throughout all the levels of the organization.

A recommendation for improving manager's acceptance of the change would be communication between upper management to middle management and staff-level employees. Communication would include why the change is necessary for the organization and why upper management is taking the steps they are to implement the change. Communicating about the change early and often can help maintain a consistent message to employees.

Our case study could be used as a guideline or comparison for other organizations going through similar changes. It would be interesting to see if the results for a larger organization

remain consistent with our findings. Also, it would be interesting to see if principal support does play a similar role within their organization as it did in our case study.

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