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An Unusual Acquisition Succeeding through Talent & Customer-Focus: A Theoretical Exploration

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An Unusual Acquisition Succeeding through Talent & Customer-Focus: A Theoretical Exploration

Rajiv Kumar[1]

Abstract

Researchers of mergers and acquisitions (M&As) seem to pay less attention to atypical (opportunistic, sudden, and unusual in other ways) acquisitions and subsequent integration processes unfolding in unique contexts. In this study I explore the factors both similar to and different from what is documented in literature that contribute to the success of such an atypical and successful acquisition in India. Based on archival data and interviews, I find themes similar to as well as different from what researchers have reported in literature. Unusual focus on clients as well as on talent emerge as distinct features associated with this successful acquisition, but seem underdeveloped in literature. Subsequent researchers may want to examine the veracity cess of acquisitions.

Key Words: Mergers and Acquisitions (M&As), Client Focus, Customer Focus, Tal nBT/n840053q0.c3,a.

An Unusual Acquisition

in the wake of such events (e.g., Guerrero, 2008), with employees of acquired organizations suffering more (e.g., Knippenberg et al., 2002). However, this belief does not explain why such adverse employee reactions are not found everywhere (e.g., Paustian-Underdahl et al., 2017; Teerikangas, 2012).

Another limiting feature of this literature seems to be that it considers employees as a homogenous group and accordingly treats associated phenomena such as layoff (e.g., Kuvandikov et al., 2020; Malikov et al., 2021) or survivor guilt (e.g., Gutknecht & Keys, 1993) as uniformly affecting everyone. This seems to be at variance with another stream of literature on talent (e.g., Gallardo-Gallardo et al., 2013) suggesting that organizations may not consider every employee   even at the same hierarchical level   equally valuable. Such a possibility hints that acquiring organizations may differentiate among employees in the post-acquisition phase and carefully consider retention or even advancement for some employees in the acquired organization. For instance, in order to reduce the uncertainty among customers after acquisitions (e.g., Homburg & Bucerius, 2006), organizations may choose not to change key people facing customers. The extant literature does not highlight these choices very well.

Relatedly, this body of literature seems primarily concerned with intra-organizational problems   such as cultural, human, and other forms of integration (e.g., Birkinshaw et al., 2000)   in the wake of acquisition (e.g., Schriber et al., 2019; Schweiger & Goulet, 2005). Relatively meagre attention has been given to the issues related to customers. This may prove to be deleterious as practitioners note that organizations are often quite vulnerable due to such an internal focus post-acquisition (Meyer, 2008).

Although these limitations seem noteworthy, one should not lose sight of the impressive list of factors that researchers have identified as enhancing the likelihood of success during post-acquisition integration (e.g., Datta, 1991; Nikandrou et al., 2000; Paustian-Underdahl et al., 2017; Ranft & Lord, 2002; Schraeder & Self, 2003). Meta-analytic results, however, reveal that most acquisitions do not perform well, and variables that may enhance this performance remain unidentified (King et al., 2004). Researchers (Dao & Bauer, 2020; Sarala et al., 2019) point out that a longitudinal and granular study of M&A processes can enhance our understanding of how to overcome organizational differences and integrate more successfully. Researchers (e.g., Colman, 2020; Lakshman, 2011) also point out the need to study integration in diverse contexts where acquisitions are not made with explicit aim of acquiring specific capabilities. It seems, therefore, that the study of atypical acquisitions with the aim of identifying unique organizational choices may enrich our understanding of what makes an acquisition succeed.

Studying such an unusual event, I find that there are certain similarities between what led to success in this acquisition and the factors documented in literature. Certain findings partly resemble what is found in literature. However, it seems that the upper echelon of the acquiring organization put a pronounced focus on two hitherto less explored factors: customers and key talent. In the immediate aftermath of acquisition, customer-related concerns weighed heavily upon the employees as well as top management. And the acquiring organization prioritized addressing these concerns. Having stabilized the urgent concerns at the customer front, the organization took a number of steps   as identified in literature   in a long-drawn and arduous process of integration. However, there was a noticeable emphasis on identifying and nurturing key talent in this phase that seems to be associated with integration success.

In the remaining parts of this paper, I review the literature related to integration post-acquisition and formulate the research question. Then I theoretically analyze the aforementioned acquisition to highlight the analogous as well as unique factors that can enrich the theory in this field. I close by discussing the findings as well as limitations of this work.

Literature Review

The purpose in this section is to summarize the relevant literature leading to the research question. Since my qualitative data analysis aims to discover similarities and differences between extant literature and an atypical acquisition, I take extensive guidance from literature again in the results section as well.

This study focuses on the post-acquisition integration. Researchers and practitioners alike highlight its importance, particularly in the light of cultural differences between organizations and their adverse impact on the performance of M&As (Schweiger & Goulet, 2005; Weber & Tarba, 2011). Prior research has also identified a number of steps that can help achieve better integration. However, it is noteworthy that given the problems in human integration, researchers make a distinction between integrating the work or task and integrating human factors (e.g., Birkinshaw et al., 2000). Considering its conceptual separation as well as import, I specifically examine the prior findings about the role of human factors.

Firstly, evidence indicates that the term human factors could be an umbrella term including a number of parameters on which acquiring and acquired organizations could differ. For instance, Datta (1991) mentions that merging organizations differ on top management style, performance evaluation and reward administration processes. Specifically, several differences in also seen. Top management in one organization could be cautious and reactive to market changes, while it could be proactive in the other. Quicker adaptations to change without getting tied up with past may be preferred in one organization, but not in the earlier had deleterious impact on subsequent performance as measured by return on investment (RoI), stock price, sales growth, earnings per share (EPS), and cash flow. However, the differences in evaluation and reward systems had no such adverse effect on subsequent performance. In the light of these difficulties, it seems natural that cultural training through informal and more frequent interactions among the employees of the two organizations can help the integration process (Schweiger & Goulet, 2005).

Researchers have also identified steps to be taken prior to acquisition which can improve the performance post-acquisition.

It should be noted that researchers (e.g., Luthans & Davis, 1982; Siggelkow, 2007) recommend bas on single events or cases under special circumstances, as seems applicable here. As mentioned earlier, a combination of considerations a smaller organization acquiring a bigger one, sudden and opportunistic nature of acquisition, and employees of acquired organization welcoming acquisition indicate the uniqueness of the acquisition under study. Moreover, researchers (e.g., Weber & Tarba, 2011) have employed single case study in M&A literature.

The data collection consisted of one introductory meeting with the organizational representatives to gain access. Subsequently, six telephonic interviews were planned to understand the history and process of acquisition. Out of these, four interviews took place but two could not. A set of questions were drafted for face-to-face interviews on the basis of data gathered so far. Subsequently, 15 more interviews were planned in consultation with the company representatives. The researcher along with two other investigators visited the study site to conduct these interviews. Due to sudden changes in the work schedule of interviewees, 13 interviews finally took place. Wherever permitted, the interviews were recorded. One interview happened to take place telephonically. The duration of all these interviews varied to some extent, but on an average, each interview lasted between 45 minutes to one hour. All these interviews took place approximately five to six years after acquisition.

Both before and after the interviews, the study team also accessed many pieces of archival data. These included company presentations to employees after acquisition, media coverage of acquisition, and the reports of business analysts who routinely scrutinized the performance of company about the company.

Finally, stock price data was used to assess the performance of this acquisition. Researchers typically use stock prices to gauge the organizational performance post-acquisition. The basic assumption behind this method is that stock market movement represents the best possible amalgamated information capturing organizational performance (Haleblian & Finkelstein, 1999). Although researchers have criticized this assumption, they also seem to agree that tracking stock price movement could have many advantages in order to assess the performance post-acquisition (Jensen, 1988). A related question is about the time window for tracking the stock price movement. Many researchers use a five-day window. A larger window may provide contaminated data containing many other factors apart from the acquisition getting studied (Haleblian & Finkelstein, 1999).

Results

Before describing the findings vis-à-vis similarities and differences seen in this acquisition, a very brief description of the two organizations acquiring as well as acquired is provided here. The acquiring organization was an information technology (IT) company with headquarters in India. But it focused on European markets, and accordingly I have labeled it as EFIT (Europe-Focused IT company) to maintain confidentiality. The acquired organization is labeled as UFIT (US-Focused IT company) to maintain confidentiality. The headquarters of

client reactions. Furthermore, researchers (Paustian-Underdahl et al., 2017) have found that people in less economically developed countries perceive more growth opportunities in M&As, and accordingly they have positive job attitudes after acquisition. In this acquisition whatever positive attitude we find afterward, a part of that stemmed not from the perception of growth and positivity about both the commitment of EFIT and the future of the merged entity. Company documents mentioned a clear and consistent message sent to UFIT employees: [EFIT] *was here* As a result, the head of brand communication mentioned: *in* [UFIT] Many UFIT employees welcomed the news of acquisition because it could possibly save their precarious employment.

Researchers (e.g., Hubbard & Purcell, 2001; Nikandrou et al., 2000; Schweiger & DeNisi, 1991) also point out that employees may sense some uncertainty in the wake of an acquisition. Here too, some employees also began sensing a fear of layoff after acquisition (a theme described later). Lastly, researchers also report that employees of the acquired company may become uncertain during and after acquisition while trying to safeguard their interests (Graebner, 2009; Marmenout, 2010). They may claim superiority over the capabilities, brand image, and culture of the acquiring organization (Colman, 2020) and express doubts about the future of acquisition. This too was seen in this acquisition. Some employees started questioning the future of this acquisition as they perceived the acquirer EFIT to be less capable than the acquired. To illustrate, the head of consulting mentioned the refrain that embodied the perceived superiority of UFIT:

> *Some people in* [UFIT] *wondere hat would they* [EFIT] *know about how to run a big company?*

Employee Layoffs

Researchers find layoffs to be more likely in case of related acquisitions. In their study, relatedness was measured using industry codes as well as

Role of Planning and Communication

Researchers (e.g., Sarala et al., 2019; Schweiger et al., 1993; Schweiger & DeNisi, 1991; Weber et al., 2012) point out that clear planning and transparent communication helps in integration and enhances subsequent performance (such as sales, profitability, and stock market performance). The same was seen here. To illustrate, company archives contained an early mention of the clear intent from the Chairman of EFIT. He stated: *It is a matter of time but these two companies are going to become one*. The head of brand communication elaborated:

> *We devised a multi-year plan for integration with clear milestones and communicated it clearly to everyone.*

Consistent with the crucial role of leadership identified in literature (Lakshman, 2011), archival data mentions two crucial roles leadership played. Firstly, the top management of EFIT divided the responsibilities among themselves. Sensing the seriousness of financial irregularities reported by UFIT earlier, the vice-chairman of EFIT took the responsibility of dealing with the ensuing legal issues. Two other senior leaders including the CEO of EFIT decided to focus on clients and internal operations. Besides the division of responsibility, the CEO of EFIT walked in the offices to listen to associates, the challenges and issues they faced, and tried to make them feel that everyone was part of one big family. As a young leader of the strategy team remarked:

> *encouraged to respond and give feedback...more than communication, we had a conversation and several initiatives were taken to ensure a smooth exchange and dialogue between the leaders and the employees.*

A scrutiny of archival data reinforced this theme. The merger of operations of both entities had been planned with timelines and the document was widely shared through internal channels.

Valuing Capabilities and Knowledge Sharing

Researchers point out that successful integration and knowledge transfer takes place when acquiring company managers value the capabilities of the acquired organization and attempt to cross leverage them (Birkinshaw et al., 2000; Colman, 2020; Schweiger et al., 1993). The same is seen in this acquisition. Archival data mentioned the following, for instance:

> *Decision makers also looked at both sides of the business domains in order to cross levsame is seen in this*

arious sub-committees examined several business processes followed by EFIT and UFIT separately in detail over six months and identified the best practices from both to be followed in future

Researchers also point out that complementary resources help in knowledge transfer (Sarala et al., 2016). This is seen here as UFIT and EFIT had complementary resources such as markets and domain knowledge. At the same time, prior research indicates that people often feel insecure after acquisition and may resent having to share their previous knowledge and power (Jaura & Michailova, 2014). This was seen here as well. But the efforts to develop a joint and common organizational identity leads to knowledge sharing (Jaura & Michailova, 2014). Here the employees of UFIT knew from the beginning that they would acquire a common identity some years down the line. Hence, although some resistance to share knowledge is seen early on, eventually the aversion became weaker. Moreover, interaction among people helps in knowledge sharing (Jaura & Michailova, 2014). And as the next theme shows, many initiatives were taken to increase the interaction between UFIT and EFIT employees.

Cultural Integration

As mentioned in literature (e.g., Lakshman, 2011; Schweiger & Goulet, 2005), cultural integration was perceived to be a major challenge. As the head of business unit mentioned:

tegration of the culture of the two erstwhile companies into a united entity in a challenging environment and grappling with a cloud of uncertainty was a mammoth task

At the same time, Schweiger and Goulet (2005) point out several benefits emanating from deep cultural learning after acquisition. These benefits include more mutual understanding, increased communication and cooperation, and greater commitment to the merged entity. Deep cultural learning involves social activities (e.g., picnics), regular meetings, and follow-ups (Schweiger & Goulet, 2005). The same can be seen here as the HR team went out of its way to organize several such avenues during festival and fun-filled activities. A young leader in strategy mentioned:

sporting events such as pool, badminton, carom or cricket, Dandiya, Antakshari and quizzes. This would also culminate into an annual jamboree for all the employees.

An organizer of such social events mentioned: *serious about fun. We take leisure very seriously and make sure that the seriousness in work is reduced, and employees enjoy their*

Besides such steps, many HR practices such as working hours, compensation, and selection policies were also harmonized across UFIT and EFIT. As many researchers (e.g., King et al., 2020; Sarala et al., 2016) note, such changes were not without resistance. The head of HR mentioned:

down. Both parties realized that give and take was necessary to achieve this outcome. As the head of delivery mentioned:

To build and integrate the two cultures there were several senior people from EFIT and UFIT who contributed to make the transition a smooth process by first understanding the ideology of both companies, and then finding the perfect balance for the new organization

The head of brands remarked:

es but at the same time wanted to retain the entire spirit that existed at UFIT - it was imperative to find a balance moving ahead.

Similarities as well as Differences

Some findings from this acquisition both resembled as well as looked somewhat distinct from what literature contains. Such themes are described below in this section.

Employee Identity

Employees sense continuity in their identity when they belong to the dominant partner. Furthermore, the employees of dominated organization are likely to sense a loss of identity (Knippenberg et al., 2002). Experimental evidence suggests that employees of smaller organizations expect worsening of situation after merger, but employees in bigger organizations experience the opposite replicable business models, whereas EFIT was more action-driven and result-oriented. As the head of enterprise business of UFIT stated:

> *We were faced with a diverse set of associates with conflicting DNAs, processes, systems, structures and attitudes*

T *We made minimal changes at the customer facing roles* The head of enterprise business at UFIT mentioned:

The extreme focus on customers could be seen in the following remarks of the CTO of UFIT:

> *In order to stem client attrition, he* [the chief executive officer of the merged entity] *travelled extensively throughout the globe in the first 18 months. He sacrificed a lot of his personal life and slept almost 200 nights in the first year on the plane. He was*

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