

APPENDIX GA36d

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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

TOPIC - Factors Affecting the Success And Failure Of In Merger And Acquisition Which Has Been Driven By Keen Competition, Globalization, Growth and Innovation

Executive Summary

Mergers and Acquisitions (“M&A”) are vital tools of business strategy to facilitate economic and organizational growth of a business. Mergers mean the unification of two players into a single entity, while acquisitions are situations where one player buys out the other to combine the bought entity with itself.

M&A are complex and lengthy processes, so a lot can go wrong when negotiating a deal. According to Harvard Business Review (Kenny, 2020) that nearly 70% to 90% of the M&A deals were deemed to be a failure. This management research report aims to focus on key contemporary factors and issues within the field of people management that arose in the organisation during the M&A process.

1. Introduction

A merger takes place anytime one business is acquired by another. After the merger, the two businesses become one legal entity. The acquired business typically adopts the branding and business practices of the business that acquired it. The graph below shows the M&A deal market value from 2000 to 2022.

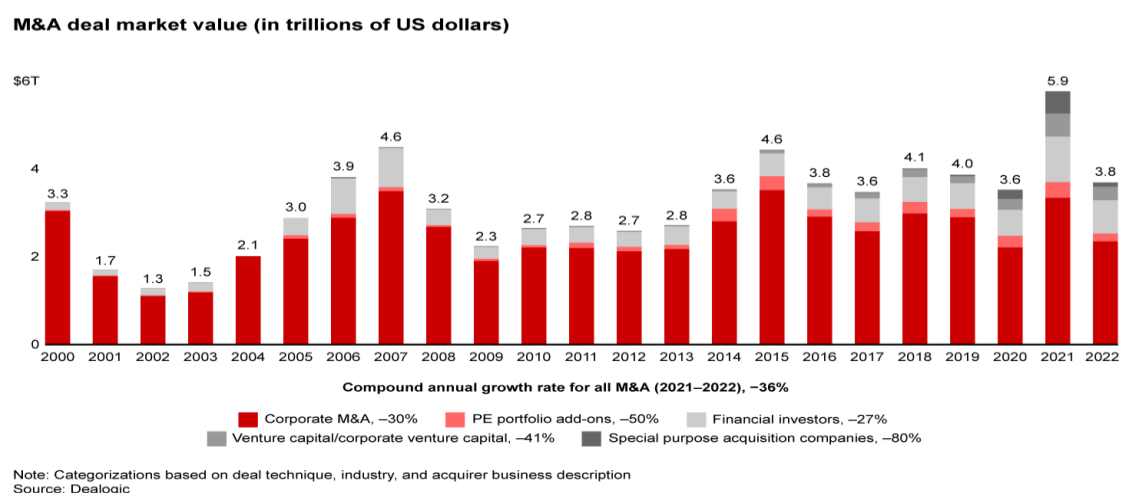


Figure 1 M&A deal market value (Bain, 2023)

According to Statista Research Department (2023), over 500,000 M&A deals have been completed globally since 2010. The yearly figure fluctuated since, but increased overall, exceeding 63,000 during 2021.

An M&A deal may seem to make perfect financial and strategic sense, but the organizations involved also need to manage integration and assess the complexities behind it. This goes beyond systems, processes and operations. Companies are only as good as their people, so making the most of talent on both sides of the deal can be just as critical as other strategic assets.

One of the worst M&A of all time (Mcgrath, 2015), the AOL and Time Warner merger was initially anticipated to create exciting synergies and results. The deal between the communications and media giants was signed in 2000 for a massive US\$350 billion (Malone and Turner, 2010). The integration of two very different company cultures (Patel, 2022) was one of the major challenges. AOL was viewed as 'more aggressive' by Time Warner, a more staid and traditionally corporate culture. The two companies came to resent each other and valuable synergies were never realized. Their woes were exacerbated by the dotcom bubble and economic recession, leading to dissolution of the merger in 2009.

The people aspects of M&A integration cannot be handled in a silo, human capital issues are critical to every work stream and must be managed with the same focus and discipline as issues of finance, operations, or information technology.

According to Statista survey (2021), the main causes of M&A failure worldwide are:

- Poor cultural fit and lack of trust among parties
- Lack of commitment from senior management
- Unclear objectives, strategy and metrics
- Unclear governance and decision-making structures
- Flawed data and incorrect analysis
- Inability to retain key people
- Overpaying for the company
- Uncontrollable external factors

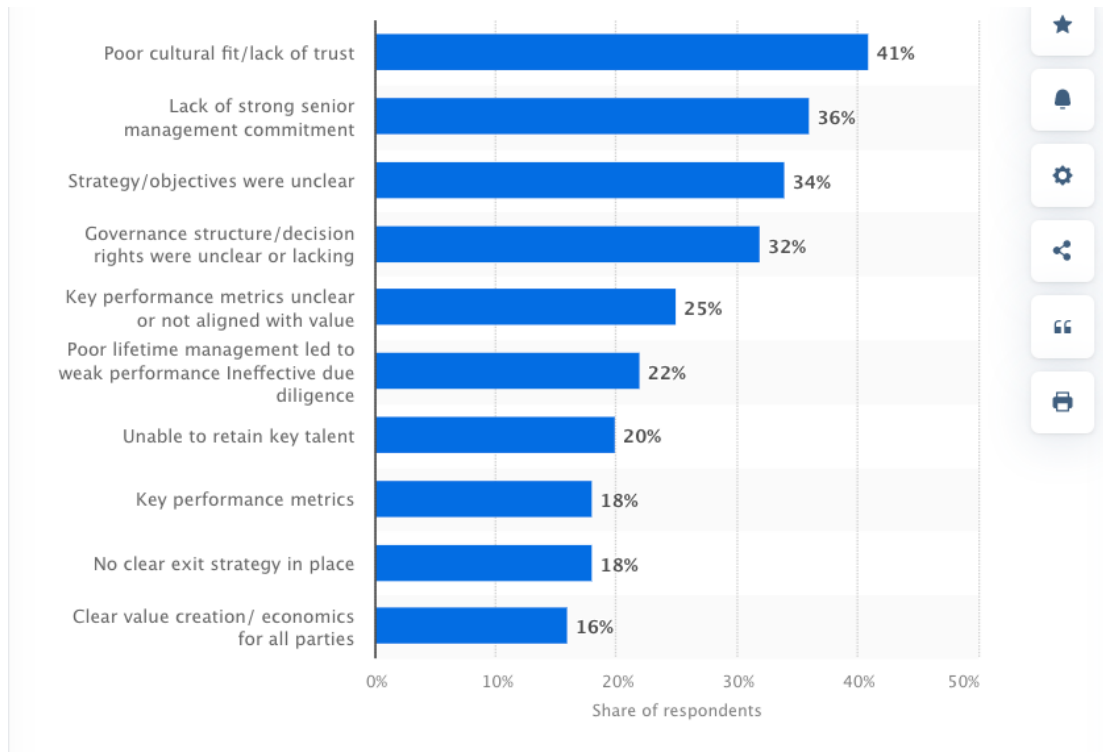


Figure 2 Main factors for failure of M&A deals according to M&A practitioners worldwide 2021 (Statista, 2023)

This management research report aim to cover seven people management strategies that are essential for the success of any M&A, and reduce the risk of M&A failure stated above. The seven people management strategies that can help to improve the chances of a successful integration include:

- a. Leadership
- b. Effective Communication
- c. Change Management
- d. Employee Engagement
- e. Cultural Integration
- f. Talent Retention
- g. Training and Development

By focusing on the above areas, leaders can help to ensure that the integration process is successful and that the new company is positioned for long-term success.

2. **Main findings**

2.1 *Leadership*

Leaders play a significant role in influencing employee experience during M&A. Leadership has been identified as one of the most crucial Human Resource Management factors in M&As in many researches (Giessner et al., 2016; Canterino et al., 2022). Many studies examined the types of leadership behavior in managing M&As.

McKinsey (Chao et al, 2018) commented that most leaders have limited integration experience, especially with large or complex M&A, but it is a great incubator for developing leaders. Mergers create a platform for building both leadership skills (e.g. lead the change, steer newly and larger integrated teams, navigate complex matrix, etc.) and technical skills (e.g. integration planning, business transformation functions, and value creation/enhancement, etc.). Leadership capability building has proved to provide better integration result by creating a unified and stronger leadership team, equipped to take new company after M&A (“NewCo”) to new heights.

According to survey of Conference Board Merger Integration from 2010 to 2017, organizations with the right integration leader capabilities are 1.6 and 1.7 times more likely to exceed cost and revenue synergy targets than organizations without the right leader integration capabilities. The same survey revealed the integration leadership is the top three dimensions require the most improvement during the M&A, with 29% of executives calling it their biggest concern.

Successful M&A have integration programs for three groups of leaders, who require M&A leadership development to execute their integration roles in the M&A effectively.

- ***The top leader*** (CEO and direct reports) must decide the integration approach and roles, understand and communicate the deal rationale, push the organization to maximize value capture from the M&A and define NewCo’s strategy to

convert these aspirations into performance metrics and objectives, both operational and financial.

- **The integration leaders** must learn how to design and manage the integration planning in order to realize the greatest value from the deal, and how to quickly mobilize employees coming from all functions and business units in the two different companies.
- **The middle managers** must lead integration execution and establish a culture or operating model, which drives higher performance.

The members of these three groups of leaders should bring strong leadership potential and a collaborative mind-set (McLetchie, 2014). They are flexible and recognize the importance of value created from the M&A and investing in developing the change leadership capabilities with the team.

The top leader should leads the discussion and gives directions on governance, performance expectations, working culture and preparing the leaders in other group to mobilize their team members to implement the business and operational strategies under the NewCo. The discussion should include:

- transforming the upside of M&A deal into a clear strategic vision and goals;
- setting performance metrics and strategic priorities;
- defining the mission and values of NewCo;
- establishing the new governance framework, business hierarchy and matrixed reporting line, if applicable;
- determine direction for cultural change and the executive sponsors that leading the change; and
- building a close and trust relation among the top leader and securing individual commitments to support the new strategies and culture.

In short, the success of building the above capabilities would have a significant impact to the effectiveness of integration efforts. Otherwise, if no common directions or goals for leaders to work together, and the way of making decision or handle issues are very different in the two previous organizations, the leaders and employees will be frustrated with unclear processes and working styles, which will hammer the result of M&A.

2.2 Effective communication

Communication is an important people management tools during the M&A processes. Pre-M&A communication from top leader needs to convey key and realistic goals, and integration plans to employees (and the same should extend to external stakeholders, such as shareholders, auditor, consultant, customers, suppliers, regulators, etc.), this can alleviate concerns and fears of the employees. In the post-M&A phase, communication has a supporting role with positive behavioral and attitudinal outcomes such as employee commitment and motivation (Angwin et al., 2016). Effective communication also supports knowledge transfer, streamlines operations, contributes to cultural integration and trust-building for employees. The continuity and frequency (Angwin et al., 2016) was examined as specific characteristics of effective communication in M&As. Other factors such as honesty, openness and consistency (Zagelmeyer et al., 2016) were also considered in other study. These elements are important to form an effective communication.

Communication to employees is influenced by several social and behavioral factors. Employee's emotions may influent how the recipient interprets the communication and explain why message may not always have the desired effect (Zagelmeyer et al., 2016). Effective communication can sharp and set the expectation of the employees on formal communication. With poor or even lack of communication, employees are likely to base their expectations on informal information, including rumors and gossip. Thus, communication builds the frame through which any future managerial actions are interpreted.

Lam (1997) showed communication is affected by culture background. The communication efforts between a British firm and a Japanese firm in product development were largely unsuccessful. I t is because the employees of the British firm relied on codified documents and plans, which employees of Japanese firm thought it is lacked practical relevance. It is noted that the Japanese employees preferred face-to-face communication, which the British considered too inclusive, time-consuming, and lacking in rigor (This is also partly related to the culture

difference which will be discussed in Section 2.5). The dissonance in communication styles has weakened relationship-building between the two firms and ultimately led to project failures.

For global M&As, language distance may further complicates the communication process (Piekkari et al., 2005) during the integration stage. Language is considered as an important source of identification, the choice of corporate language would be interpreted by employees as a symbolic reflection of the underlying power positions (Piekkari et al., 2005). In a case study involved a Swedish-Finnish acquisition, the use of English as medium reduced communication problems, but did not eliminate them. The differences in the national communication cultures and language were still evident even when employees communicated with a foreign language.

Separately, with the advancement of the technology, there are many more communication platforms and channels for communication. The use of social media is very common nowadays, almost every employee has their own social media account. According to Influencer Marketing Hub (2023), there are more than 4.74 billion people are using social media in 2022 with over 128 social media sites. Social media can include the use of text, pictures, and video in the form of tweets, wikis, blogs, forums and podcasts. Leaders can use social media internally, and also formal communication channel for M&A deals.

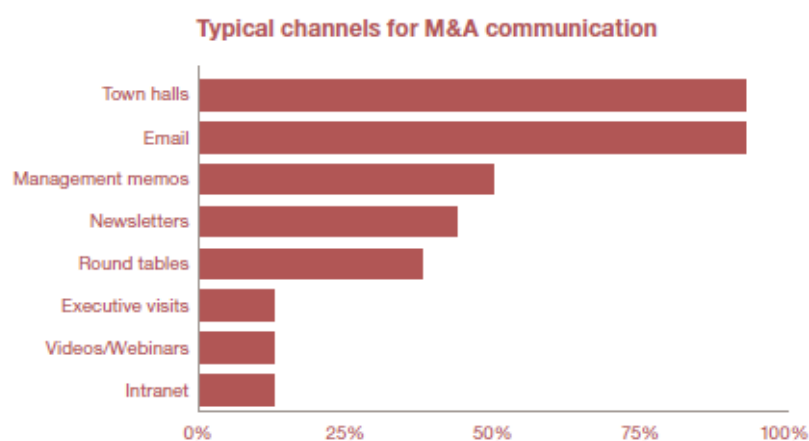


Figure 5

Integration communication efforts often rely heavily on town hall meetings and e-mail messages.

Figure 3: Typical channels for M&A Communication (PWC, 2023)

It is noted that Social media can speed up the M&A integration process through communicating with people across cultures (Jue et al., 2010), language, location and time zone. Social media also facilitates informal communication by giving a platform for different stakeholders to voice out their concerns. Social media allows employees to express opinions and exchange ideas (Jue et al., 2010). However, employees may be hesitant to use blogs or social media account if they think that leaders/managers will monitor their posts and criticism may result in adverse personal outcomes in M&As (Reynolds, 2015).

No doubt effective communication is critical during the integration process. Leaders should keep employees informed about the progress of the integration, the impact on their jobs, and any changes to the company culture or values (Angwin et al, 2016). Regular communication can help to build trust and reduce anxiety among employees (More will be discussed on Section 2.3 below on the Change Management). Leaders should communicate with employees early and often about the integration process, including the goals, timeline, and changes impacting employees (Angwin et al, 2016). It is important to be transparent and honest, and to provide opportunities for employees to ask questions and provide feedback. Here are some key factors in an effective communication during the M&A suggested by McKinsey (Engert et al, 2019):

- Open and transparent communication is essential to ensure that employees are informed about the progress of the integration process, the impact on their jobs, and any changes to the company culture or values.
- Use multiple channels to communicate with different employees. Leaders should use a variety of channels, such as email, meetings, video conferencing, and social media, to ensure that everyone is informed and engaged.
- Tailor the message to different groups of stakeholder. Leaders should tailor their communication to the needs and interests of different stakeholders, such as employees, customers, suppliers, and investors, to ensure that they receive the information they need to make informed decisions.

- Clarify roles and responsibilities as early as possible during the M&A to avoid any ambiguity and ensure that everyone understands their role in the integration process.
- Listen to feedback is essential to ensure that communication is effective. Leaders should provide opportunities for employees to ask questions, provide feedback, and voice concerns. Leaders should be prepared to answer questions and provide reassurance, and to seek input from employees throughout the integration process.
- Communicate a clear vision for the future of the NewCo is essential to ensure that everyone is aligned around the same goals and values. Leaders should communicate the vision frequently and clearly, and ensure that everyone understands how their role contributes to the success of the NewCo.
- Develop a communication plan to ensure the communication is organized, consistent, and effective. The plan should outline the key messages that need to be communicated, the channels to be used, the frequency of communication, and the roles and responsibilities of key stakeholders.
- Communicate the benefits of the integration is essential to ensure that employees are motivated and engaged. Leaders should communicate the strategic rationale for the integration, the potential benefits for employees, customers, and other stakeholders, and the vision for the future of the NewCo.
- Monitor and evaluate communication effectiveness to ensure the communication is having the desired impact. Leaders should monitor employee feedback, track engagement and morale, and evaluate the effectiveness of communication strategies regularly to identify areas for improvement.

Overall, effective communication is essential to ensure that the integration process is successful. By being transparent, using multiple channels, tailoring the message, listening to feedback, and communicating the vision, leaders can ensure that everyone is informed and engaged throughout the integration process.

2.3 Change Management

In every M&A integration, effective program management and change management are essential to aligning business strategies, organization and people (PWC, 2023). Leaders should anticipate and manage resistance from different stakeholders. The benefits of the integration should be communicated to different stakeholders upfront, and providing timely support and appropriate training to employees to manage the change. Leaders should prepare to make adjustments to the integration plan as needed to address any unexpected challenges or issues.

M&A involves some degree of organizational change, integrating some or all parts of the original company's functions and activities. The degree of organizational change varies substantially across M&As based on the types and motives of M&As.

Seo & Hill (2005) identified six theories (acculturation theory, anxiety theory, job characteristics theory, organizational justice theory, role conflict theory and social identity theory) to explain problems in managing the M&A organizational change process. She further proposed there are four M&A integration stages: (a) premerger, (b) initial planning and formal combination, (c) operational combination, and (d) stabilization, which the six theories can explain the reaction from the employees. By studying and addressing the reaction from employees properly, it can reduce the resistance from the employees during the M&A.

- Premerger stage: It starts with the examination of a potential M&A and ends with the official announcement of the M&A. This stage includes discussions and planning among executives and top managers regarding a possible M&A and any rumour emerging from employees related to the possible M&A. The organizations are likely to be stable during this stage.
- Initial planning and formal combination stage: This stage starts after the final M&A announcement and ends when the NewCo and senior management team formally established. This stage involves the creation of a new vision, new goals for the NewCo, new governance committees and management to make decisions regarding structural changes, staffing planning, and new reporting structure.

- Operational integration stage: This stage involves the integration of organizational functions and operations. Interactions between employees and leaders under NewCo, joint committees to general work units and day-to-day operations. In this phase, work assignments, budgets, office arrangement, and reporting responsibilities, etc. should be aligned. It involves cultural, procedural and role related under the NewCo, it may take long time to complete, up to years.
- Stabilization stage: The final stage consolidates existing processes, as the operational integrations have been completed. Further adjustments and changes continue throughout this stage, the NewCo should reach the stabilize status, with roles, norm and work are in routine operation.

Seo & Hill (2005) indicated that effects on employees' psychology and behavioral responses (such as uncertainty, loss of identity, intergroup conflict, perceived unfairness, acculturation stress, job environment changes, role conflict and ambiguity and prolonged uncertainty, etc.) are different in at each stage. The Integration leaders and managers involves in the integration of human resources during M&A process, can predict the issues using the identified six theories, when the issues are likely to occur. Furthermore, by understanding the employee's reactions during different stage of the M&A, the leaders can proactively develop an action plan (e.g. follow up communication, training, staff engagement, review of the roles and responsibilities, etc.) to address the issues in advance, which can minimize the potential negative impact from the employees. The proper handling of the change management is a critical factor for the success of the M&A.



Figure 4 Change management pain Points (PWC, 2023)

Leaders should focus exclusively on optimization during the M&A. The integration management office will drive long-term integration, staffing and selection, employee retention, cultural alignment, and succession planning, among other elements

PWC (2003) suggests the integration management team should cover the following areas to set the course for the integration:

- Articulating the strategy of the combined company;
- Determining the degree of integration and non-negotiables;
- Identifying and protecting core operations outside the scope of integration;
- Outlining the goals, timeline, and key milestones of the integration process;
- Customising the integration structure and approach;
- Developing communication plans and executing early communications;
- Identify the resources needed to complete the integration;
- Designating integration leaders at all levels; and
- Assign roles and responsibilities to key stakeholders.

McKinsey (Basford & Schaninger, 2016) also suggests that in times of change and transformation, leaders should develop a change story that helps both internal and external stakeholders to understand where the NewCo is headed, why it is changing, and why this change is important to them. Leaders should build a feedback loop to sense how the story is being received, and any further clarification is required. These change stories not only help get out the message, but also serve as an effective influencing tool for brand building.

Significant changes can be challenging and stressful for employees. The integration leaders who lead the change management should provide sufficient resources and time for adjustment, e.g. funding for training, flexible work options during transitions and phased timelines for implementation where possible. While M&As aim for efficiency, investing in proper support for people during difficult time will pay off in stronger engagement, productivity, and retention during (and after) the M&A.

In summary, M&As are complex processes that do not end with the legal transaction. Effective change management and integration of business functions, cultures and

teams is necessary to achieve the result and benefits for the M&A. Providing adequate resources, time and attention to change management will help getting buy-in from employees, addressing issues early on, and delivering stronger outcomes. With a successful change management and integration process, the combined company can harness synergies and benefits that justify the M&A.

2.4 Employee engagement

Employees engagement is essential to ensure that they remain committed and motivated during the integration process. Engaging employees during the integration process can help to build trust and reduce anxiety. Leaders should involve employees in decision-making, seek their input, and provide opportunities for them to contribute to the integration effort. These actions can help the employees to build a sense of ownership and commitment during the change.

Sarala, Vaara and Paulina (2019) commented that researchers typically conceptualize M&As as a top-down processes with the decision-making power resting with top leaders of the acquiring firm. The decision-making is often limited to a small group due to secrecy requirements during the premerger stage. However, the stabilization stage (i.e. post-acquisition integration process) is different because it requires broad engagement and participation, as well as wider discussion from top leaders holding senior position in the NewCo.

In order to ensure the integration process can be implemented with lesser friction from the employees, one mechanism is to allow employee to participate in some decision-making process. The top leader may consider retaining a certain amount of power and freedom to employees, in exchange for lower resistance from employees. It aims to build an environment conducive to the transfer of best practices and knowledge under the NewCo (Colman & Lunnan, 2011). Leaders and managers play a significant role in the integration process, which include mediating in conflicts between employees from two companies, alleviating their concerns.

Middle managers, line managers and Human Resource managers also have important roles (Antila & Kakkonen, 2006) to play to engage employee throughout the change process. Middle managers are involved in strategy making through processes of agenda seeking, information filtering, proposal selection and actual implementation. Therefore, middle managers generally have the dual role of recipient and agent of change. Middle managers are positioned as both enablers and empowerers for their staff. On the same token, Human Resource managers also acts as the change agents by acting as mentors and advisors who support line managers during the integration process (Antila & Kakkonen, 2006), and assist any employee who has concern under the new structure.

Employees are likely to be engaged in the change process if they are also the change agents. This is because employees are not merely implementers of strategy, but can initiate change processes proactively during stabilization stage (Sarala et al, 2019). Employees' active participation allows them to discover more information, which is likely to result in greater trust in the change process (Armenakis, Harris & Mossholder, 1993). For example, if the employees are allowed to participate in formal strategic planning activities, this allows employees to get better understand on the M&A rationale, and more likely to support the integration. Another example is to allow employees to visit the partner organization under an exchange program, which can facilitate active participation in the M&A. The employee participated in the exchange program can share their discoveries and findings with their peers, which has personal influence amongst their colleagues on the readiness for change (Armenakis et al., 1993).

The “merger syndrome” reflects several kinds of negative reactions from employee during the M&As, which has been researched in the “human side” M&A literature. As covered earlier in the Section 2.3 on Change Management, employees is likely to have negative psychological reactions, such as uncertainty, loss of identity, intergroup conflict, perceived unfairness, acculturation stress, job environment changes, role conflict and ambiguity and prolonged uncertainty, etc. Regarding change resistance, it is not an inherently negative phenomenon (Ford, Ford & D'Amello, 2008). Resistance can be valid employee concerns or motivated by good intentions.

Resistance can potentially improve the change process by helping to eliminate counterproductive behavior or unrealistic expectations (Ford et al., 2008).

Resistance to change may arise from full engagement and thoughtful thinking from the employee on the change process, and represents greater commitment than acceptance (Ford et al., 2008). Resistance and conflict may result in development of innovative solutions, enhancement on existing process, and even invigoration of employee relationships by expressing different views through constructive discussion (Sarala et al., 2019).

Furthermore, resistance can occur even at the level of top managers, it is not just limited to lower level employees. It is very common that the top leaders of the target firm disagree within the top management from acquiring company during the M&A (Sarala et al., 2019). Some leaders may claim there are security concerns or employees' protection and legitimize resistance from consumers, but the typical underlying reason is that top leader perceives a threat to their current position, and potential loss of power after the M&A, and causing the resistance.

In order to keep the employees engaged, regular meetings are recommended. This allows employees to understand the expectation during change process and provide input into change. Employee participation and involvement can result in several positive M&A outcomes (Sarala et al., 2019). If organizational members had input in M&A decision-making, commitment, trust and perceptions of fairness increases

Consultants such as McKinsey and PWC would suggest the NewCo to use pulse surveys and focus groups to regularly assess and address employee engagement. Human Resource managers should provide additional support for employees experiencing significant uncertainty or change, and have resources available for employee counselling.

In brief, the level of uncertainty and change involved in M&As may drive the decline in engagement and employee's morale, which can negatively impact productivity and retention, so proactively monitoring and managing engagement is vital during the M&A. Using communication, feedback mechanisms, and employee survey to assess

and support employee engagement is essential to mitigating the risks associated with M&As.

2.5 Cultural integration

Gaining an understanding of a target's culture, e.g. the way the target's people think and act daily as they go about their work, should be a critical step in the due diligence for a M&A deal. Cultural hurdles can spring up from ethnic differences, geographic differences and work-style differences between the two firms (PWC, 2023). And when it comes to integration, all these differences must be accessed and addressed.

Cultural differences between companies, in operating style such as the handling of customer relations, in methods of decision making, collaboration, and communication, etc., can become major obstacles to achieving the strategic and operational goals in the M&A. Hence, cultural assessment is an important part of any integration because there are often potentially value-destroying cultural differences between acquirer and target, especially when large companies acquire much smaller ones. The need for culture insight becomes more acute when the target and the acquirer are based in different countries (PWC, 2023).

The goal of culture assessment is to define the dimensions across two companies like values, beliefs and work practices, and have a better understand how they're similar and how they're different through a proper comparison on the data collected. This can range from the decision-making process, reporting line, employee's autonomy, staff compensation and promotion, how performance is measured, workplace factors (e.g. parking space, office space, etc.), etc.

Given the importance of cultural integration in the success of any M&A, leaders should work to identify the unique elements of each company's culture and values and develop a plan to integrate them into the NewCo. This can help to build a sense of shared identity and purpose among employees and ensure that everyone is aligned around the same goals and values. This could be done by recognizing and rewarding shared values, facilitating team-building activities, providing cross-cultural training,

and being transparent about which aspects of each culture will be retained or changed (PWC, 2023). Barriers to cultural integration like distrust or stereotyping should be addressed.

McKinsey (Doherty, Engert & West, 2016) considered the essence of culture is reflected in a company's management practices, the day-to-day working norms of how it gets work done. If not properly addressed, challenges in cultural integration can lead to frustration among employees, reducing productivity and increasing the risk that key talents will depart, hampering the success of the M&As.

Leaders often focus on the financial side of the M&A, and pay less attention to assess and manage culture and organizational compatibility. Leaders often revert to rituals, language, rites and norms, this only address the most visible expressions of culture, but not the underlying management practices and working norms. Leaders often have mis-conception and convinced that the cultures of the two companies involved are similar and will be easy to combine (Engert et al., 2010). As a result, they always reserve very few resources to handle cultural side of the integration. This is one of the reasons why so many M&A deals failed to deliver the expected outcome at the end.

Another reason why culture is difficult to address, it is because it permeates an organization, spanning levels and geographies. Thus, driving the change from the head office or a few local offices/ departments is not sufficient; real cultural integration needs to be addressed at all levels in the company and in a distributed fashion across geographies. The culture alignment change should be treated seriously at all stages of the M&A, from due diligence, pre-close integration planning, post-close integration, to ongoing operations.

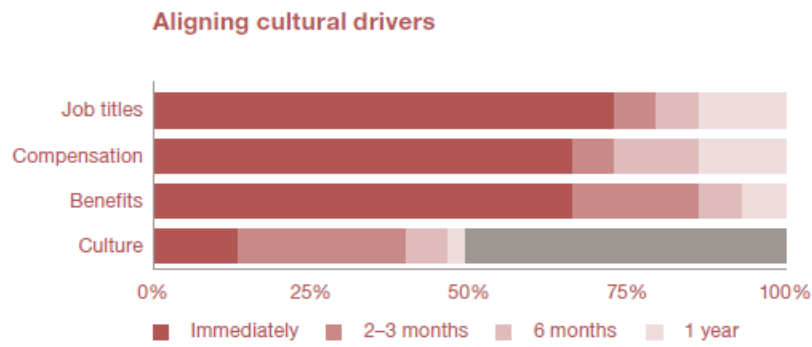


Figure 5: Aligning Culture drivers (PWC, 2023)

From the graph above, culture alignment takes the longest time to achieve. Maintaining the momentum of cultural integration all the way in the integration process is very important (Doherty et al., 2016). In the case study, the managers identified and evaluated ten potential cultural goals as areas for improvement, areas of strength, or areas of difference during the integration of two European industrial companies. The leaders decided to focus on four goals that were most closely linked to the value of the M&A deal, which helps to struck a balance between areas where the two companies were similar, as well as areas where they were different. This approach quickly achieved the benefits of their similarities, and created the momentum and trust required for addressing many other issues the managers faced. To ensure the businesses leaders continue to be linked and take ownership to lead the cultural integration, the NewCo assigned a senior-executive sponsor from business unit to tackle each goal related culture alignment identified earlier, and not just leave it to Human Resources team to handle the goals. Every sponsor then created and implemented a plan that managers could monitor well past the close date and into ongoing operations, in order to achieve a certain objectives and reflected in score on future employee survey.

In gist, combining two companies with different cultures, values, and ways of working can be challenging. Culture alignment is a deliberate and planned management activity that plays a critical role in nearly all M&A integration environments (PWC, 2023). Managers face certain challenges in their efforts to align two company cultures. Sometimes those challenges lie not in the cultures themselves

but in the managers' inability to perceive a culture. That is, managers may not understand how the culture functions across the two organisations and how to manage the culture so that it drives economic value. For cultural integration to be successful, leaders must view it as core to the business. Leaders should visibly leading and prioritizing the cultural integration as part of the change management plan, and on-going communication. It is important to effectively manage the cultural integration process through communication, training, and clearly establishing a shared vision and values for the NewCo in order to a success in the M&A.

2.6 Talent retention

Retaining key talent is critical to the success of any integration effort. Leaders should identify and prioritize the retention of key employees and develop retention strategies that align with the company's goals and values. This can include creating a positive work environment, providing career development opportunities or offering competitive compensation and benefits.

The talent management/talent retention can be complex issues to navigate, including deciding on key leadership and critical roles, avoiding the loss of key talent, and harmonizing compensation and performance management systems. A careful and detailed review on talent pool is crucial to achieving deal objectives.

During the integration process, it inevitably produces both winners and losers, in terms of those who benefit and those who do not (and may have to leave the company eventually). Some employees may have perceptions of unfairness, which can damage trust, morale, leadership and engagement (Seo & Hill, 2005) (which was touch upon in Section 2.3 and Section 2.4). Leader and Human Resource manager should be transparent in decisions and communicate rationale behind changes properly to employees. Use objective criteria in decisions around role changes, organizational restructuring, resource allocation and talent management, whenever possible. This can avoid favoritism and nepotism, and help minimize resentment from employees. Leader and company with a reputation for fairness and transparency will help gain

employee buy-in for changes, improve employee retention rate, even those affected negatively by the M&A.

A thorough analysis of talent in both companies is necessary, including identifying key talent to retain and potential skill gaps or redundancies. Human Resources department should determine an integrated compensation system and performance management process is vital. Leaders and Human Resource managers should decide on retention incentives for key talent and outplacement support for displaced employees. Human Resource managers should highly involve throughout talent management decisions and processes to ensure a people-centered approach.

PWC (2023) reveal that 82% of their clients reported satisfactory ability to retain desired talent for the first 12 months from M&As related to Valley companies in the technology sector. This type of M&As are often smaller deals and heavily talent driven. One company buys another to secure a new innovative technology and the talent behind it. Therefore, much resource is focused on holding onto talent, and therefore not surprise that the employees of the acquired company choose to stay at the NewCo, at least for the near term.

Some PWC clients indicated that it kicks off its retention effort by asking incoming employees whether they see a future for themselves in the NewCo. It is an effective and relevant question, especially when a large global firm is acquiring a small start-up. There are many inherent differences, particularly between a large company and a small, entrepreneurial firm.

Some companies follows a regimented process in selecting employees and allocating retention budget resources, taking into consideration each employee's salary as well as any equity allowances. The sizes and types of retention bonuses vary by company (PWC, 2023). When companies offer equity, it may be applicable to all employees of the target company, only to key long-term players, or to those with skills essential to the success of the M&A. Of those that offer equity awards, some offer them only to high-level managers and not to a broad cross section of staff. From the chart below, more than 90% of the hot skills employees are typically included in retention plans.

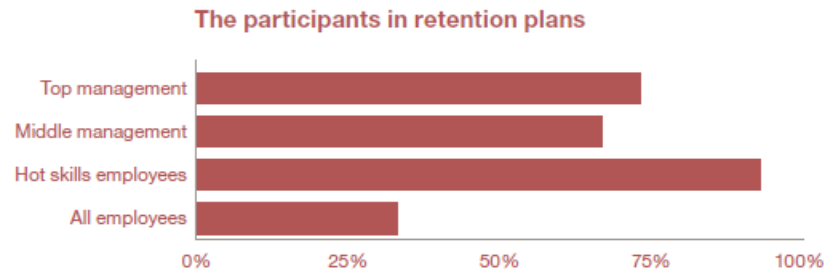


Figure 6: The participants in retention plans (PWC, 2023)

The retention pool must be determined early in the process, and attendees stressed the value of human resources input to the design process (Graebner, Eisenhardt & Roundy, 2010). One attendee even stressed the importance of setting aside a travel budget for Human Resource leaders to help evaluate targets and their talent.

To effectively retain key talent, leaders must first understand the target company and its employees, and tailor an integration strategy. The acquiring company must define each employee's relative importance to the business. In essence, the company must decide who is needed for short-term transition and who is needed for long-term value creation (PWC, 2023). Three levels of criticality may be used for defining those needs:

- Strategically critical: Those employees most essential to the ongoing operations of the newly combined organisation—typically, top executives and key business unit leader
- Integration critical: Those employees essential to the integration effort itself
- Knowledge-transfer critical: Those employees with specialized knowledge essential to the transfer of ongoing information and knowhow

For every type of employee, the acquirer must consider award amount, award type (e.g., cash, equity, or both), and payout date. Keep in mind that payments for periods in excess of one to two years are typically not effective for retention. The acquiring firm should also consider non compensatory factors that may be attractive to employees, such as flexible work arrangements and company cell phones.

Companies usually reward short term employees with cash (instead of equity) and enhanced severance packages. For long-term retention, companies must address

engagement and career satisfaction as well as cash and equity grants. A regular evaluation of employees will help the organization determine what drives engagement as well as help guide employees in career planning.

Leaders should solicit direct feedback regularly from employees on their experience and practical concerns during the entire M&A process. Integration team may use focus groups, engagement surveys or interviews to understand employee perspectives in depth. From the result, we can reinforce positive experiences, but also address any negative issues. By demonstrating to employees that their feedback is valued and employees' practical concerns are being addressed, this can increase trust in leadership, engagement in the changes resulting from the M&A and the retention rate.

Where roles are changing or becoming redundant due to the M&A, leaders can offering retraining and change of roles to retain key talents. Company may offer financial support for retraining, temporary assignments in other parts of the company, or preference in hiring for new roles. While not all employees may be able to stay on the NewCo after the M&A, the willingness to invest in developing talent and finding new internal positions will be appreciated by employees with high-performance. Mobility programs can be offered to retain essential talents that are likely to contribute future success of the NewCo.

It is critical that organizations carefully assess staffing for senior positions, because inattention to that issue can put the wrong people into the wrong jobs. To ensure a good fit, the acquirer must clarify and articulate the core competencies and skills required for key jobs.

2.7 Training and development

Mergers create vast organizational anxiety about the future, e.g. change of the operating model and culture for one or both merging companies, and challenge the core an identity of the organization. McKinsey (Kaetzler et al., 2019) suggests anticipating and addressing these “organizational emotions” can set the foundation for

seamless, effective integration. Failing to do so can lead to poor business performance, a loss of critical talent, and the leakage of synergies.

Providing training and development opportunities can help employees to develop the skills and knowledge they need to succeed under the NewCo. This can help to reduce anxiety and build confidence among employees during the integration process, and improve talent retention. To reduce such negative reactions, employee participated in the training during M&As increase self-efficacy and reduce the level of uncertainty and dysfunctional outcomes among employees (Chung, Du & Choi, 2014).

Training also involves the organization's effort to communicate the intention and benefit of the change, encourage employee participation and feedback regarding the change (Beer, 2011). In addition, training also increase positive reactions among employees and improve their post-change task performance (Chung, Du & Choi, 2014). In general, the efficiency of the employees increase after formal training as they have a better understanding of the work procedure and reducing the risk of errors or delays.

The development and training during post-merger integration, to deal with the effects of culture clash situations in M&A, are pivotal for success. Weber (2015) commented that researchers and counselors from the field of organizational behavior in the view that the primary cause of M&A failure is because the human factor during the planning and implementation of the M&A was not properly considered. Employees, who are not willing (or not able) to adjust the differences of management style or culture, are unable (or do not succeed in) transform to the NewCo, which leads to the exploitation of the potential of synergy aimed in M&A.

Employees need development and training to meet the impact of the culture clash, change in working environment, replacements of those who leave follows the M&A, as well as the change in technologies and systems and work processes being introduced (Weber, 2015). Employees from both companies is expected to learn through specific designed training about the NewCo and its structure, culture, values, assets, people, management styles, their own roles in transferring and coordinating

specific resources under the NewCo, and the deliverables expected throughout the integration process.

Further training on issues on cultural differences in the given M&A, the impact on human resources, managing resistance to change, dealing with conflict during the post-merger integration, etc. should be arranged for manager leading the change. Development and training helps improve the effectiveness of knowledge integration and absorb or acquire knowledge by reliance on databases, manuals, processes, and routines that encourage repeated use of this knowledge (Weber, 2015).

M&A development and training programs should be in addition to regular training provided to employees and managers on their normal needs. Birkinshaw, Bresman, and Hakanson (2000) found the employees' training programs in M&A to be positively associated with knowledge transfer, but the research did not investigate further on the relationship between training and performance. The complexity on this area partly due to the fact that knowledge transfer / training involves extra costs of human resource practices, which is a trade-off on the potential benefits gain through training.

The knowledge and experience of employees in each organization in the M&A are a key factor in the creation of new practices and the improvement of existing ones. Improved understanding: Training can help employees better understand the M&A process, and their role to play during integration. This can help employees feel more comfortable and confident in perform their duties.

3. Conclusions

As stated in Section 1, there are eight main causes of M&A failure worldwide. The seven people management strategies covered in this management research report should have addressed at least five areas and improve the chance of success in M&A. The remaining three causes of M&A failure are related to financial aspect, regulatory approval or other external factors.

	People Management Strategies cover this in report that may be able to address the causes of M&A failure						
Causes of M&A failure	Leadership	Effective Communication	Change Management	Employee Engagement	Cultural integration	Talent Retention	Training and Development
Poor cultural fit and lack of trust among parties	✓		✓	✓	✓		✓
Lack of commitment from senior management	✓	✓	✓				
Unclear objectives, strategy and metrics	✓	✓	✓				
Unclear governance and decision-making structures	✓		✓		✓		
Flawed data and incorrect analysis							
Inability to retain key people						✓	✓
Overpaying for the company							
Uncontrollable external factors							

The seven people management strategies are important in the M&A process. Leader should carefully consider them in the pre and post M&A process. The successful implementation of these 7 strategies would significantly increase the chance of success in the M&A.

1. Having the right leader with appropriate skillset to lead the discussion and align the expectations from the management team and managers, and set out clear strategic vision during the M&A integration, can increase the chance of a success for the M&A.
2. Effective communications with the internal and external stakeholders are important people management tool in M&As. Leaders should communicate with stakeholders on the progress of the integration, the impact stakeholders, and changes of company's culture or values. Regular, transparent and honest communications can build trust and reduce anxiety among employees, which can reduce the chance of failure in the M&A.

3. Good change management can minimize the uncertainty, loss of identity, intergroup conflict, perceived unfairness, acculturation stress, job environment changes, role conflict and ambiguity from stakeholders during the M&A integrations. Leaders must manage the change and proper integration can position the NewCo for long-term success.
4. Employees are asset to the company and act as change agent during the integration process. Employee engagement can help to them build a sense of ownership and commitment during the M&A integration process, and reduce change resistance and minimize risk in M&A.
5. Many researches have indicated the culture difference has a big impact on success or failure on the M&A integration. To manage the cultural integration process effectively through communication, training, and clearly establishing a shared vision and values for the NewCo will have a higher chance of success in the M&A.
6. Retaining key talent is critical to the success of any integration effort. Leaders must understand the employees, and tailor an integration strategy to different type of employees.
7. Training and development can help employees to develop the skills and knowledge they need to succeed under the NewCo. This is part of the change management process, cultural integration and talent retention program. The gives an opportunity to employees to adapt the new procedures and improve the existing ones.

If leaders and integration team can factor in all seven people management strategies during the M&A process and manage the change properly, it should produce a positive outcome from the M&A.

4. Recommendations

Overall, effective people management strategies are critical to the success of any M&A. By focusing on sever people management strategies (i.e. leadership, effective communication, change management, employee engagement, cultural integration, talent retention, training and development), leaders can help to ensure that the

integration process is successful and that the NewCo is positioned for long-term success.

There are other areas that are not covered in this research management report, but also impact the success of M&A, that may worth further explore:

- **Performance management:** Performance measurement is critical to ensure that the integration is successful. Leaders should develop key performance indicators to track the progress of the integration and measure the success of the integration effort. This can include KPIs related to financial performance, employee engagement, customer satisfaction, and other key metrics.
- **Compensation:** Compensation systems have an effect on employee motivation and productivity. How the revamping of compensation systems to align with new organisational realities and performance culture.
- **Organizational design:** The NewCo will likely necessitate an organizational restructuring, which could include role changes, redundancies, and altered reporting lines. How to determining the right organizational design by considering both strategic business requirements and employee needs, and implementing the necessary changes in a thoughtful way is vital to minimizing disruption and ensuring people are set up for success in the new structure.
- **Human Resource managers' role and responsibilities during the change:** Coordination from Human Resource department and other business functions is important during the M&A process here to align people management strategies with overarching M&A goals. With strong human resources planning, the people management side of the M&A can run more smoothly. The human resources strategies must be continuously re-evaluated and refreshed in the complex and lengthy process of M&A. With a dynamic human resources strategy, you can more effectively navigate employees through the uncertainty and changes of an M&A.
- **Track people management outcomes:** Carefully evaluate people management outcomes and impacts on employee engagement, retention, performance, and productivity after the M&A. Look for areas of both success and opportunities for improvement. Be willing to adapt strategies as needed to address issues or further support employees. Tracking outcomes and continuously refining

approaches will help achieve both business and employee objectives in the long run.

- **Foster teamwork and collaboration:** M&As require bringing together and integrating teams from different parts of the NewCo, who may not have worked together before. Leaders in M&As requires working with and coordinating across various functions like finance, IT, legal, and business units. Meet regularly to understand interdependencies, address complex issues, and find solutions that meet multiple needs. Facilitating team-building and opportunities for cross-team collaboration will help break down silos sooner and build relationships. With stronger team cohesion and cross-team support, the chaos and challenges of the M&A process will feel more manageable, which is crucial to the success of the NewCo after the M&A.

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