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Management Report

The Human Resources Function in Large Scale Mergers & Acquisitions: Coca-Cola's Acquisition of Costa Limited

Submitted by

KAVAN LAU

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1. Abstract

The Coca-Cola Company has recently expanded its reach into the coffee industry with its \$4.9 billion acquisition of Costa Limited from its former parent company Whitbread PLC. The management report aims to provide an in-depth investigation and study of the completed merger and acquisition process involved in the purchase and integration of the world's second largest coffee chain, it aims to provide an overview and analysis of the key people management issues identified in the case – including the clashes faced with international culture differences, corporate identity, and employee redundancy. How can Coca-Cola successfully manage these challenges to ensure a successful merger and post-merger integration? The report describes the roles played by the HR function and examines the effects of workforce management and integration in the post-merger processes.

2. Introduction

Mergers and acquisitions are pursued in order to achieve growth, competitive advantage, technological acquisition, expansion into new markets, and to create greater value in general. However, according to one study, eighty-three percent of mergers and acquisitions failed to achieve their intended value (PR Newswire, 1999). This is because while an acquisition may sound great on paper, many executives fail to adequately account for the significant complications and challenges that arise during the execution of the actual transition. This results in a “ $2 + 2 = 3$ ” rather than a “ $2 + 2 = 5$ ” effect. While strategic, cost, revenue and legal issues drive most deals, companies underestimate the importance of the human resources function on how the workforce is managed and integrated in the merger and post-merger process. Issues such as cultural fit, employee retention, and workforce integration can determine the immediate success of a deal. How companies handle their workforce is probably the single most decisive factor in M&A success, and is unfortunately not paid sufficient attention. In fact, culture differences are the reasons cited most often for the failure of an M&A process (Papadakis, 2007, pp. 43-50). Although cultural integration is of high importance, it is hard to anticipate, analyze and quantify.

HR factors are not only important in the immediate aftermath of a merger, but can also pose latent issues and challenges if left untreated. Consequences of such may result in organizational failures and inefficiency years down the line. In other words, the importance of the HR factors should never be underestimated in an M&A deal.

Recently, one of the biggest news in the M&A space has been the Coca-Cola Company (hereafter referred to as “Coca-Cola”)’s acquisition of Costa Limited (hereafter

known as “Costa”). This acquisition was announced in August 31st, 2018, following regulatory approval from authorities in the European Union and China, and was completed in January 2019 for a total of \$4.9 billion. A full analysis of the role of human resources in this deal is conducted because this merger is one of the largest to date in the food and beverages industry. Both companies are global in scope (though one is American while the other is British) and have fairly established retail and supply chains. Therefore, Coca-Cola’s acquisition of Costa Limited is a useful project to study for cultural issues, economies of scale, and global management factors.

3. Business environment

Overview of Coca-Cola

a. Business Model

The Coca-Cola Company (NYSE: KO) is a publicly traded company that specializes in beverages, offering over 500 brands in more than 200 countries and territories. Some of the brands under Coca-Cola’s company portfolio include the most valuable beverage brands in the world such as Coca-Cola, Sprite, Fanta, Schweppes, Appletiser, Dansani, Minute Maid, smartwater, Simply, and more.

Coca-Cola sells branded beverages to consumers throughout the world through its network of independent bottling partners distributors, wholesalers and retailers, as well as company-owned or –controlled bottling and distribution operations (The Coca-Cola Company, 2018, pp. 2-8). These factors combine together to form the world’s largest beverage distribution network. According to Coca-Cola’s website, roughly 3% of all beverages consumed worldwide daily contain trademarks owned or licensed by them (The Coca-Cola Company, 2020). Coca-Cola’s business is divided into two lines: the concentrate business and the finished product business (The Coca-Cola Company, 2018, pp. 2-4). The concentrate business sells concentrate and syrups to authorized bottling operations, who then combine the concentrates with sweeteners, still water and/or sparkling water to produce finished beverages, which are then packaged away and branded with Coca-Cola’s trademarks before being sold to retailers and wholesalers. In the finished product operations, Coca-Cola generates revenue by selling sparkling soft drinks and a variety of other finished nonalcoholic beverages, including water, enhanced water and sports drinks; juice, dairy and plant-based beverages; tea and coffee; and energy drinks, to retailers or to distributors and wholesalers who distribute them to retailers. Currently, Coca Cola’s finished product operations generate

higher net operating revenues but lower gross profit margins than concentrate operations (The Coca-Cola Company, 2018, p. 3).

b. Global scope

Coca-Cola retails in over 200 countries and territories. The company is headquartered in Atlanta, and has about 290 offices, plants, warehouses and facilities across the globe. The Coca-Cola system sold 29.6 billion unit cases of products in 2018. Sparkling soft drinks is a category that makes up 69 percent of Coca-Cola's worldwide unit case volume for 2018. In 2018, 18 percent of the Company's worldwide unit case volume is accounted for by unit case volume in the United States. In the same period, unit case volume outside the United States amounts to 82 percent of the Company's worldwide unit case volume. Mexico, China, Brazil and Japan, are the countries outside of the United States with the largest unit case volumes, which together contribute to 31 percent of Coca-Cola's worldwide unit case volume.

c. Financial performance

Due to changing consumer tastes and preferences in global developing markets, Coca-Cola's traditional soft drink sales have fallen in recent years. Over the past five years, revenue has declined more than 30% and net income has also been on a downward trend, although it saw a significant uptake in 2018 due to improved operating margins and lower income taxes from the prior year (profit took a hard hit by a one-time transition tax resulting from the Tax Reform Act signed into law in late 2017.) Sales also fell 10% to \$31.9 billion in 2018 because the company underwent a structural change that involved the refranchising of bottling territories and bottling operations that resulted in a drop in sales from the Bottling Investments segment (Vault.com Inc., 2020).

d. Organization structure

Coca-Cola manages through operation segments, which are referred to internally as "operating groups" or just "groups. Most of them are based on geographical location – Europe, the Middle East and Africa (EMEA); Latin America; North America; Asia Pacific; Bottling Investments; and Corporate. The Corporate operating group contains two parts – a center focused on company strategic initiatives, policy and governance, and an enabling services organization focused on standardizing and streamlining key transactional processes, and, through global centres of excellence, providing support to other business units. Global Ventures, a new operation segment established in January 2019, includes the results of Costa Limited. As of the end of 2018, Coca-Cola had approximately 62,600 employees, 11,400 of whom were located in the United States.

e. Organizational risks and challenges

According to Coca-Cola's Annual Report, here are some of the main organizational challenges faced by the organization in 2019.

i. Talent retention

One of Coca-Cola's biggest challenges is working to maintain and attract top talent to the firm amidst rising competition from technology companies and a competitive labor market. According to its annual business report, the success of its business relies heavily on its ability to attract, train and develop a high skilled and diverse workforce that is able to meet the needs of the 21st century economy. On the level of skills, this may include employees with specialty knowledge, skillsets and capabilities with respect to e-commerce, social media and digital marketing and advertising. On the level of diversity, it is increasingly important that Coca-Cola hires personal that are highly skilled technically and professionally to meet its business needs, as well as management personnel that are familiar with international business environments. However, changes in immigration policies and legislations can result in difficulties to do so. According to reviews of Coca-Cola's organizational structure on Vault Careers, the company suffers from an outdated management style that is slow to embrace telecommuting and work-life balance, discourages "out of the box" thinking, and offers limited room for advancement. All this may result in it being hard for Coca-Cola to attract the talent it requires to the firm in the long-run.

ii. Changing consumer tastes and preferences

As a result of work done by public health professionals and government agencies, there is growing public concern over the health effects related to consumption of sodas and other sugary beverages, which constitute the majority of Coca-Cola's products, may lead to decreasing demand and sales. These health concerns include the increase in risk of obesity. To reduce consumption on sugary beverages or to raise tax revenues, some governments are even considering imposing or raising taxes on sugar base and sweetened beverages. Additional regulations concerning the advertising and marketing, product labeling and packaging of sugar-sweetened beverages are also being imposed. There is also an increasing and potentially extremely damaging threat of legal action against soda companies relating to the marketing, labeling or sale of sugar-sweetened beverages which could adversely affect company profitability. In recent years there has been a change in consumer preferences towards healthier, naturally sourced beverages, as well as concerns regarding the source of ingredients and their geographic origins, raw materials and the effect of the product manufacturing process has on the environment and sustainability.

iii. Digitization

If Coca-Cola fails to digitize its retail system, then its financial performance will be negatively impacted. The success of businesses in the 21st century depends on their ability to adapt and thrive in the digital environment. Coca-Cola must create more relevant and personalized experiences whenever its system interacts with consumers, whether in a digital environment or through digital devices in a physical environment. They must digitize their operations through the use of data, artificial intelligence, automation, robotics and digital devices to increase efficiency and productivity (The Coca-Cola Company, 2018, p. 12).

Overview of Costa Limited

a. Business Model

Costa Coffee is a UK-based coffeehouse chain headquartered in Dunstable, Bedfordshire. It was founded in London in 1971 by Bruno and Sergio Costa as a wholesale operation supplying roasted coffee, caterers and specialized Italian coffee shops. Since then, it has expanded into the second largest coffee chain in the world, after Starbucks. At its retail locations around the globe, Costa sells hot drinks, such as coffees, teas and hot chocolates, cold drinks including Frostinos and fruit coolers, savory snacks such as sandwiches and breakfast items, cakes and pastries, as well as limited edition and branded reusable cups. It's roaster in Basildon, Essex, roasts and supplies 45,000 tons of coffee beans per year to Costa's location around the world.

b. Global Scope

Costa's position as the UK's favorite coffee shop, and a prominent player in the global coffee industry is backed by a rigorous well-organized supply chain and a large network of outlets. Within the past 10 years, it has expanded aggressively into international markets. Costa now owns more than 2,400 coffee shop locations in the UK, 1,400 shops across 31 international locations, and 8,000 vending machines worldwide. Outside of the United Kingdom, China is Costa's biggest market. 450 of its 1,400 international locations are based in China. Costa's other largest markets by number of locations, in descending order, are the United Arab Emirates, Poland, Ireland, and India. International operations are expecting to constitute the major driving force behind Costa's future growth.

Costa is working on expanding business in existing countries but also working on bringing its brand to new territories as well. According to Jan Jakubowski, Head of International Supply Chain at Costa, Costa's international operations would not be possible without a well-functioning, adaptable and future proof supply chain that is and will continue

to be a key enabler of growth (Costa Brochure: Growing Globally, p. 9). This involves forming an end-to-end supply chain into which new businesses can easily enter or exit, a good cost management solution tailored to international locations, and also strategic partnerships with global 3rd party logistics networks to reach vast locations to deliver its branded coffee, while delivering fresh, locally relevant cuisine. In this way, Coca-Cola, with its understanding of local markets, legal requirements and what needs to happen to deliver products to remote countries at speed, can provide Costa with insights and quick product adaptations.

c. Financial performance

In fiscal year 2018, Costa had strong financial performance, demonstrating strong return on capital, strong total revenue growth, and consistent profits. It achieved strong revenue growth underpinned by store and Express (Costa's vending machine) location expansions. Sales in the United Kingdom also remained strong despite tough retail conditions amidst macroeconomic uncertainty, with revenues rising from £876 million to £921 million, a 5.2% increase. Total revenue in FY18 was £1,292 million, up 7.5% from FY17 (Whitbread PLC, 2018, pp. 8-9). This is partially due to Costa Express's strong growth, with revenue growth up 18% to £210 million (Whitbread PLC, 2018, p. 9). International revenues grew 8.5%, from £148 million to £161 million (Whitbread PLC, 2018, pp. 9-11). Cost also profited from an additional £10 million investment in IT, digital marketing and product innovation in the UK. It demonstrated strong like for like growth in China of 3.2%, and consistently strong return on capital (46.0% in FY 18 and 45.4% in FY17) (Whitbread PLC, 2018, p. 9).

d. Organization structure

Costa's retail business is split into three main formats – franchise, equity partnership, and joint venture, and several key product categories – hot and cold drinks, consumable items and sweet range products. The first format is its international franchise business – Costa operates through the franchise model in which they maintain relationships with franchise partners who are essentially their customers. Therefore, relationship management with franchise partners becomes an essential part of the business model as maintaining consistency and quality for Costa's end users is key. Costa has worked over the years to develop a solid relationship of mutual respect, and its partners believe in the quality of service provided. Its second business format is composed of countries in which Costa Coffee shops are operated by entities in which the former parent company Whitbread PLC has an equity stake. These countries are Poland, France and Singapore, where Costa is engaged in a higher level compared to franchise partners, and has a greater impact on the choices that are made and

solutions that are implemented at the retail locations. Thirdly, in China, Costa operates mainly through the joint venture partnership. This is due to the business environment in China, where there are foreign ownership limits that make joint ventures an essential requirement to grow a successful business (Jiang, et al., 2018).

e. Organizational risks and challenges

i. *Employee morale*

As Costa is quickly becoming a global name brand, employees are faced with increasing uncertainty due to the rapid growth and organizational changes happening. I am referring specifically to Costa's rapid expansion, as well as the announcement of its purchase by Coca-Cola. When a smaller company is acquired by a larger parent firm, its employees commonly experience frustration and helplessness as a result of a loss of status, and uncertainty due to the ambiguousness of the future organizational direction (I will elaborate on this later in the paper.) Therefore, it needs to step up its effort to ensure that current existing employees are enthused with a sense of pride and direction in the company. In addition to the retention strategy, it also needs to increase its diversity and outreach efforts, including rolling out an attractive compensation and benefits package for new and existing employees, in order to attract and return top talent.

ii. *The entry of non-specialist players*

The entry of non-specialist players, which is defined as companies which have traditionally not been involved in the coffee industry and specialize in other products, into the coffee market poses a great threat to Costa's existing businesses. For example, chains like Costa Coffee, Blue Bottle and Starbucks are specialist coffee producers, while McDonalds and KFC have not. Premium coffee is no longer the specialty of artisan cafes, and is increasingly ubiquitous across vending machines, hotels, supermarkets and pubs. The rapid democratization of once niche principles such as origin, roasting profiles and barista expertise has led to the emergence of over 10,000 non-specialist coffee operators in the UK alone. Growth in this segment is spurred by the adoption of new technology, such as super-automatic machines, and widening availability of specialty-grade coffee. These non-specialist players have an extensive existing distributing network. In recent years, the growing importance of health and wellness among younger consumers has led to greater consumption of coffee as a substitute for alcohol. As a result, pubs are also expanding into the coffee business. One example is the UK pub chain, JD Wetherspoons, which offers Lavazza bean-to-cup coffee across its 900-locations across the UK. Scottish craft beer firm is even launching a roaster to supply its 40 UK sites, and has introduced its own coffee-infused

alcoholic beverages. A similar trend is occurring in the fast food business. McDonald's, which introduced its own McCafe brand, began trying to include baristas at select stores after discovering that coffee was a key sales driver.

iii. *Brexit fallout may cause labor shortage*

In addition to uncertainty with Brexit leading to a decline in consumer confidence, UK hospitality and coffee industries are reliant on EU workers to sustain their labor source, and Brexit can potentially disrupt this vital labor source. In 2017, Pret A Manger revealed that just one in 50 job applicants were British citizens, while Costa Coffee has previously reported that around a fifth of staff are not from the UK (World Coffee Portal Ltd, 2019). Once Brexit leaves the EU, the cost of hiring foreign workers to work at Costa's retail locations will increase, which could potentially damage its profits. If Costa is unable to maintain a sustainable labor source following Brexit, the operations of its coffee branches could be negatively impacted.

4. Acquisition

a. Facts of the merger

Costa Limited's former parent company, Whitbread PLC is a British multinational hotel and restaurant holding company. It is the United Kingdom's largest hospitality company, owning many chain hospitality brands in the hotel and restaurant industry, including Premier Inn as well as Beefeater, Brewers Fayre, Table Table and Bar + Block. In the year ended 2 March 2018, Whitbread PLC reported an 6.1% increase in Group Revenue to £3.3 billion and Underlying Profit before tax of £591 million up 4.5% (The Coca-Cola Company, 2019). However, the reason that Whitbread made the decision to demerge from Costa in 2018 was due to pressure from its two activist investors, Elliot Advisors and Sachem Head, which together control 10% of shares. The justification was that shareholder value would rise significantly from the demerger, the theory being that individual businesses would be worth up to 40% more than the current market capital value. On 25 April 2018, Whitbread announced its intention to demerge from Costa. By 31 August 2018, it was announced that Coca-Cola had agreed to acquire Costa Coffee from Whitbread.

In regard to the acquisition, James Quincey, CEO of the Coca-Cola Company, said "We see great opportunities for value creation through the combination of Costa's capabilities and Coca-Cola's marketing expertise and global reach. Our vision is to use the strong Costa platform to expand our portfolio in the growing coffee category" (Arthur, 2019). In response, Alison Brittain, the Chief Executive of Costa's former parent company Whitbread said, "We wish our friends and colleagues at Costa all the very best for their future

success. Whitbread acquired Costa 23 years ago, when it had only 39 shops. Costa has grown to become a leading, international coffee brand, and Coca-Cola is the right partner to take Costa to the next stage of expansion” (The Coca-Cola Company, 2019).

b. Strategic rationale

Right now Coca-Cola is dealing with challenges in two areas, which pose a threat to its growth and profitability: a shift in consumer preferences towards healthier beverages, and product saturation in mature markets. The acquisition of Costa Coffee provides a potential solution to both of these issues.

First, the acquisition is a push by Coca-Cola to enter the global coffee business, which is growing rapidly at 6% annually (Arthur, 2019). Costa is one of the world’s largest coffee companies, with a global reach in over 30 countries, and a scalable business model across multiple formats and retail channels. The purchase of Costa Coffee will provide Coca-Cola with strong expertise into the coffee supply chain from sourcing, vending to distribution. The acquisition will also complement Coca-Cola’s existing capabilities, and it has the ability to expand the coffee company much faster than Whitbread was able to. Through the deal, Coca-Cola will acquire the Costa brand along with its 4,000 stores, 8,000 self-serve coffee vending machines and its growing in-home coffee business. Costa’s extension chain of coffee vending machines plays to Coca-Cola’s traditional strengths in logistics and distribution, while avoiding the capital and labor intensive and high execution risk associated with trying to take on Starbucks in a direct bricks and mortar shootout. The acquisition clearly demonstrates Coca-Cola’s strategy to diversify its product portfolio beyond the sugary drinks category and into other healthier beverages such as coffee. Given the recent poor financial performance of Coca-Cola and its sluggish share price, this seems like an important decision. This need to diversify beyond soft drinks is becoming particularly pressing since in Australia, the Cancer Council has recently launched a campaign directly linking obesity-causing soft drinks and multiple types of cancer.

Second, with mature markets becoming increasingly saturated, Overseas growth is also vital to Coca-Cola’s strategy, as it plans to leverage Costa Coffee’s coffee vending machines to expand its market share in international markets. Costa’s strong presence in the Europe, Asia Pacific, the Middle East and Africa gives Coca-Cola a solid coffee platform across multiple markets. Costa’s strong footprint and continued impressive growth in China is also key a consideration for Coca-Cola, as Costa plans to increase its store count in China from 450 to roughly 1,200 by 2022 (Whitbread PLC, 2018, pp. 38-39). The reason why China is such an important market is because it is one of the fastest growing and largest

developing markets. It's GDP is projected to exceed \$15 trillion by 2021, and is expected to fuel a large increase in purchasing power (Trefis Team, 2018). Currently the per capita coffee consumption in China is about one-half of one cup per person per year compared to approximately 300 cups per person per year in the U.S., which means that there is enormous potential for growth (Trefis Team, 2018).

5. Theoretical overview

Compared to the 1970s, when a firm's human resources function was concerned mainly with negotiations with labor unions and the implementation of policies and procedures, it is now commonly expected among the leading businesses of our day that the HR function is not expected to take on a strategic and business role within the organization. It has been argued by many that the allocation of responsibilities for HR issues needs to more clearly clarified and agreed upon between HR professional and line managers in order for an organization to function efficiently.

An influential conceptual model with which to view the HR function within an organization is the one developed by Ulrich in 1997. He suggests that HR professionals are at least responsible for four roles within the organization: 1) Management of the infrastructure of the personnel basics (the "administrative expert"; 2) Management of employee contribution (HR as "employee champion"); 3) Management of strategic human resources issues (HR as "strategic partner"); 4) Management of change and transformation (HR as "change agent") (Trefis Team, 2018).

The HR function is particularly important in mergers and acquisitions, although studies have indicated that finance and business strategy issues are more prioritized in mergers & acquisitions (Jemison & Sitkin, 1986). There have been calls to pay more attention to the people-side of issues, particular in the post-merger integration process (Buono & Bowditch, 1989; Cartwright, et al., 1992; Schuler & Jackson, 2001; Stahl & Voigt, 2004).

Although there is little empirical research on the organization and function of HR in mergers and acquisitions specifically, there has been work done on the role of HR functions generally within the large firm in general. First, the roles played by the HR function are contingent on expectations held by top and line managers – key stakeholders in the role of the HR organization – towards the function (Katz & Kahn, 1978). The roles that HR played within the firm prior to the merger will also influence the role that it plays during and after the merger (DiMaggio & Powell, 1983; Purcell, 2006). Therefore, HR departments that are already perceived within the organization to have a high level of effectiveness are more likely

to play a large role in the M&A integration process and enact strategic change. Second, in order for HR to play an effective role, the organization as a whole must agree on the need for change and direction in which HR function would like to develop its activities (Flood, 1998). For example, if the HR department is trying to implement a large-scale departmental transformation, yet the majority of the firm disagrees with the direction of the transformation, then it will be very hard to implement successfully. Thirdly, the power, social capital and political skills of HR managers themselves are likely to facilitate the expansion of the roles of HR in the corporation (Ferris & Judge, 1991; Galang & Ferris, 1997). Fourth, the HR departments need sufficient resources and abundant support systems to help them free up the time and energy needed to oversee a large-scale implementation (Truss, et al., 2002). Fifth, the size and complexity of the organization can influence the HR function's ability to operate in a strategic and well-coordinated manner (Truss, et al., 2002). The HR department must develop its strategy based on the size of the merger, as well as the specifics that the situation demands.

With these key success factors in mind, as well as the four traditional roles that HR departments are expected to undertake within an organization, let's take a look at some of the main challenges faced by Coca-Cola and Costa in the merger.

6. Key human resources challenges faced by Coca-Cola

This section will focus on the two main human resources challenges faced by Coca-Cola in the acquisition of Costa Limited.

First of all, according to Coca-Cola's 2019 Annual report, there has been an "unexpected loss of experienced and highly skilled associates due to insecurity resulting from our ongoing productivity initiatives, organizational changes and changes in compensation structure" (The Coca-Cola Company, 2018). This has the potential to deplete Coca-Cola's institutional knowledge base and erode its competitiveness. This is unsurprising given the fact that according to a poll by Business Inside, 20% of employees voluntarily leave their company soon after a merger announcement (Bogosian, 2015). This is otherwise known as the "merger syndrome," a phenomena in organizations first documented by Marks and Mirvis in 1985 (Marks & Mirvis, 1985). According to Marks and Mirvis, the merger syndrome is characterized by increasing uncertainty, a higher work load to deal with the implementation of the merger, the centralization of decision making, less top-down communication, the spreading of rumors which leads to moving into crisis-management mode, heightened self-interest, power games and internal conflict, and a loss of organizational culture and identity.

All of these causes lead to an increase in feelings of anxiety, insecurity, frustration, distrust and suspicious in the aftermath of the announcement and implementation of a merger. As a result, there is greater stress, decreased motivation, lower job satisfaction, reduced commitment, less cooperation, and worse performance. In the worst case senior, merger syndrome can lead loss of valuable employees, and even a mass exodus of employees and managers. The increase in employee turnover can be extremely detrimental, because a large influx of employees leaving the company can lead to decreasing worker morale. Furthermore, early integration planning and post-merger integration requires a rapid rate of knowledge transfer between the two companies. Employees that leave the company take with them valuable institutional knowledge.

Often times merger syndrome effects the smaller company more than the parent firm, as they are more affected by the change. However, with the acquisition of a company as big as Costa, it can affect both sides. I argue that Coca-Cola is particularly at risk from employee turnover because of the second main challenge that it faces, the cultural gap between Coca-Cola and Costa Coffee.

Second of all, there is expected to be a significant cultural gap between Coca-Cola and Costa. Coca-Cola is an extremely large and old American company, while Costa Coffee is relatively new British company. According to reviews of Coca-Cola's organization culture on Glassdoor and Comparably.com, online platforms which allow employees to anonymously post reviews of their employers, Coca-Cola suffers from an old-school style of management and does a poor job of achieving work-life balance for its employees (Comparably, 2019a). Workers reported already being asked to working long hours with very little time off, and being pressured to deliver results under very short time frames. Coca-Cola's work structure is also very traditional. Work hours are inflexible and the company has not adapted to remote work schedules which more and more companies are introducing. This leads to employee exhaustion and burnout. The merger is likely to exacerbate these conditions, adding onto employee's already overburdened workloads. An opaque, top-down management style also seems to be cited among Coca-Cola's top management problems. Company decisions are concentrated on the bottom line, without taking into account that human element. Executives often change processes, systems and procedures without any input from employees. Employees also reported executive management having little to no contact with the employees, and make their decisions in a silo. Empowerment of employees also seems to be an area for improvement, as often employees reported little room for advancement within the organization, and feeling demotivated or discouraged in their day to

day job. These preexisting conditions are ripe for employee disengagement and turnover during the merger.

Costa's former parent company, Whitbread PLC, on the other hand, was found to have very positive employee reviews. Employees cited a "supportive, positive, encouraging, inclusive, and friendly" culture and environment, as well as a "hard-working and positive work ethic" (Comparably, 2019b). The board of directors at Whitbread has committed to creating a culture openness and debate within the company, so that decisions are not perceived as "top-down" by the employees. It has also committed to creating a diverse and inclusive culture. The company issues a Gender Pay Gap report every year, and from 2017 to 2018 the company witnessed a 6.6% reduction in the Gender Bonus gap (Whitbread PLC, 2019). It has also reported a material uptake in the flexible working conditions within its teams. Within Whitbread, Costa also enacts a number of policies to promote workplace support. This includes the Employer Value Proposition, a company statement of its values and vision. It also tries to foster apprenticeship and mentorship with its Whitbread Investing in Skills and Education program. It also consistently recognizes the achievement of employees with its "Gold Bean" award and the Barista of the Year award (Whitbread PLC, 2016).

In general, organizational culture deteriorates the larger the company, so to some extent it is to be expected that Coca-Cola's company culture is rated below that of Whitbread. Furthermore, Whitbread's business model as a coffee and hospitality holding company means that it is by nature more customer-facing, and must foster a friendlier and more inclusive corporate environment. Coca-Cola is a primarily a business to business corporation, so its financial performance is less tied to its corporate culture.

Nonetheless, the cultural gap between the two firms may lead to greater discontent once Costa is integrated with Coca-Cola, as employees may feel that they have less autonomy and professional support that they did previously. This may lead to discontentment, and slow the adjustment and transition period. Employees may also be discouraged after integrating with a legacy American firm such as Coca-Cola as they feel it robs them of their British upstart standing, and disapprove of Coca-Cola's corporate image.

7. Proposed recommendations and justifications

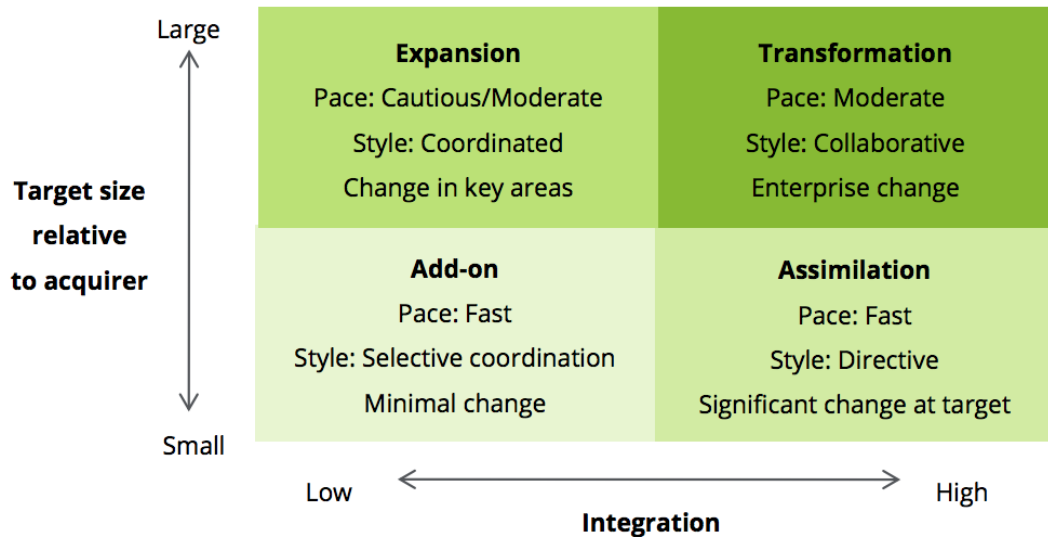
In the following section, I will provide some suggestions and recommendations on how to mitigate and potentially solve for the aforementioned human resources challenges –

increased organization anxiety and uncertainty and cultural gap between the two companies, which may lead to employee turnover and loss of institutional talent.

The recommendations are drawn from a variety of experts such as human capital consulting firms specializing in M&A integration and Day 1 planning, as well as past companies that have successfully gone through the HR integration process. In particular, a paper by Rodríguez-Sánchez et al., examines the M&A activity of a large multinational organization in the field of mechanical engineering. The company manufactures, markets and offers post-sales services, and is a global leader in its industry. It has more than 1000 sales outlets in five continents, employing more than 60,000 people in more than 100 countries. The study looks in particular at the firm's M&A operation in Spain which involved the investment in production facilities in a geographical area, where previously only products manufactured in other countries such as Switzerland and Germany had been marketed. According to the study, the consolidation of leadership, including retaining valuable personnel knowledgeable about the local industry of Spain, was crucial to the success of the operations. Other important factors included the transfer of institutional knowledge, particularly the tacit and ingrained knowledge of HR, the adoption of best practices in structure, strategy and culture from both organizations, a controlled M&A process with involvement of senior leadership, and continued follow-up after the signing of the agreement improved the smoothness of the transition (Rodríguez-Sánchez, et al., 2018).

8. Timeline and detailed recommendation plan

Figure 1: M&A strategy classifications



(Deloitte M&A Institute , 2017)

The above diagram provides a useful framework to think about Coca-Cola's acquisition strategy. Coca-Cola has a total of 60,000 employees and a market value of equity of \$184.986 billion, while Costa has 10,000 employees with a market value of equity of \$5.1 billion. While Costa's market value is a small share of Coca-Cola's total market value, it has a large number of employees (its workforce is roughly 17% of Coca-Cola's), which is what the HR function is primarily targeting. Therefore, we classify Coca-Cola as a large company. However, integration needs are relatively low, as Costa will maintain its own independent branding as well as its own employee and HR system throughout its retail locations. Therefore, the expansion strategy is most useful in this situation. Coca-Cola should pursue a cautious/moderate pace of the integration, a coordinate style of leadership and communication, while implementing change in several key areas.

According to Deloitte Consulting, a leader in the M&A integration consulting space, a typical expansion-focused transaction occurs when a company acquires a large target firm with low integration needs (i.e., the large target will maintain separate systems and/or programs with limited integration with the parent company) (Deloitte M&A Institute , 2017, pp. 1-4). The acquirer is typically trying to widen its global footprint or add in a separate business that will not be integrated to its main business. Therefore, "some effort may be

required to meet synergy targets for systems, benefit plans, and redundant resources, including senior leadership; however, with limited integration, synergy opportunities also may be limited. For example, the existing HR organization may not possess the competencies to deal with the risks and needs of the new businesses and/or geographies. In addition, the expanded organization may need to rethink its leadership structure, operating model, and talent strategies, which adds complexity” (Deloitte M&A Institute , 2017, p. 2).

This paper outlines several short-term, medium, and long-term recommendations for policies that Coca-Cola should pursue in order to ensure a smooth merger integration that realizes the full value of the acquisition.

Figure 2 – Merger Integration Timeline Recommendation

Baseline Assessment	Visioning	Gap analysis	Implementation planning	Day 1 Implementation
6-8 weeks after announcement of merger	2-3 weeks	2-3 weeks	1-2 weeks	First day of merger + 6-8 weeks following
• Interview key executives and regional/functional leads • Create a side by side comparison reviewing processes, roles, technology and governance • Collect other data as appropriate	• Define a vision and high level strategy based on the following results: Outcomes, Outputs, interim results • Set key performance metrics, e.g. employee retention • Clarify any guiding principles of the merger	• Assessment of processes and culture of two companies against a best practice repository • Identification of primary business process improvement initiatives and quick wins • Clarify points of integration between two systems	• Review strategy • Create roadmap to achieving key recommendations with a high level and then detailed timeline • Create tailored communications strategy to each stakeholder group	• Facilitate organization design changes that become effective on Day 1 • Manage and communicate change, clarify leadership structure • Continue to follow up with workforce and review key success metrics in the aftermath of merger

(Gavora, 2009)

First of all, in the 6-8 weeks leading up to the merger, the HR organization of Coca-Cola needs to immediately conduct the baseline assessment on the HR integration strategy. This begins with performing due diligence on the HR systems of Costa, in addition conducting a self-assessment to analyze its own HR systems and processes to identify the issues and limitations. They should do this by interviewing key executives and key regional/functional leads of both Coca-Cola and Costa. In order to ensure efficiency and

comprehensiveness, the interviews should be done by region. After the interviews are conducted, Coca-Cola can then create a side-by-side, global and country-by-country comparison of Coca-Cola and Costa's similarities and differences (e.g., organizational structure, demographics, compensation and benefit plans, and HR policies and systems and processes) in order to develop an effective strategy. The report should include guiding recommendations, estimated complexity of the deal, timing and costs, as well as potential synergies. As they do this, they should ask the following questions: Has the acquirer closed past deals that have not been fully integrated? Does this deal provide the opportunity to integrate past deals or improve on current processes? Can Coca-Cola's existing systems scale to integrate the target? Or should Costa keep its own system? Based on the findings, the team can then decide whether or not the merger calls for a large scale HR systems integration and transformation. The M&A transaction can provide the opportunity to upgrade and standard the company's existing systems, but only if it is needed and feasible within the specifics of the case. It can also provide the opportunity to absorb the best people-related practices from both companies.

After the baseline assessment has been completed, Coca-Cola should launch into the visioning stage, which involves setting the overall vision and high-level strategy of the merger. They should ask the following questions: what outcomes and outputs are expected at the end of the merger integration process? In other words, what does success look like? What guiding principles should be used to conduct operations throughout the integration process? Coca-Cola should also set key performance metrics to measure the merger success: this may include detailed key employee retaining targets going into the merger to hedge against the possibility of employees leaving the firm as a result of merger syndrome. At the same time, the HR department should also be working on employee retention strategies to deal with the side effects of the transition. This includes key employee populations to be retained and the percentage of the workforce that aims to be retained within each department/function of the organization. C-suite executives should work with HR to identify key employees, the reasons they should be retained, and the required actions and processes to make retention meaningful. However, an assessment should be made to identify redundancies and overlapping functions between Costa and Coca-Cola, and work to determine the number of job cuts that are necessary, including severance costs. Such workforce cuts should be done as gently as possible, with minimal disruption to the day to day operations of the organization.

After Coca-Cola has established the high-level human resources-specific vision of the merger, a gap assessment should be conducted that compares the HR processes and cultures

of the two companies against a best practice repository. HR can identify primary processes that need to be improved, prioritizing “quick win” initiatives that can be implemented quickly and cost effectively.

By 1-2 weeks before the merger, the overall strategy should be in place, with a detailed timeline and implementation roadmap. HR should also identify relevant stakeholder groups impacted by the change, and created tailored communications plans to each stakeholder group. During the merger integration, the executives and managers of the company should make it a point to maintain constant and open communication to the employees, and address any concerns that arise. This can involve holding periodic town halls in which employee concerns are addressed, as well as frequent communication about the overall organization objectives and future-state. This can also involve identifying “change agents” within the firm whose function is it to champion the change within the firm and maintain employee engagement and moral.

Finally, on the day 1 implementation of the merger, HR must oversee any operational changes, as well as help address any questions and concerns that employees may have.

Important things to focus on include:

1. **Clarifying leadership structure:** Using tools such as town hall meetings and strategic communication materials, HR should aid employees in understanding what the new leadership roles might mean down and across the organization, therefore alleviating some anxiety. (Deloitte M&A Institute , 2017, p. 6)
2. **Managing and communicating change:** HR should work with communications, marketing at both Coca-Cola and Costa to develop and communicate the aforementioned change management strategy. This includes the use of “change champions,” as well as a feedback process in which employees can report their concerns. (Deloitte M&A Institute , 2017, p. 6)
3. **Strive for zero “breakage”:** Finally, HR should work with the technology department to ensure that the HR and payroll systems integrate smoothly, with minimal or zero disruption to employee’s work schedules. This ensures that the new organization gets off to a positive start and goes a long way in helping employees adjust to the new organization. (Deloitte M&A Institute , 2017, p. 6)

Following the merger, HR should keep a close eye on employee sentiment and department functioning after the merger. They should follow up frequently with the employees and continue reviewing key success metrics.

9. Conclusion

Mergers & acquisitions are opportunities for CFOs to lead their teams to success by expanding into new markets and diversifying the company portfolio. However, 30 to 50% of deals fail to achieve their intended benefits (Bogosian, 2015). This is caused by managers and executives paying too much attention to the financial aspects of a deal, and not enough to the human component and cultural impact. As seen in the case of Coca-Cola's acquisition of Costa Coffee, cultural differences and employee turnover caused by organization uncertainty are two of the numerous challenges faced by organizations in the merger process. With a solid HR integration strategy from Day 1, companies can successfully mitigate many of the risks involved in the process of integrating companies, and successfully realize the full financial benefits of the merger.

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