1. Introduction

1.1 WHY A BOOK ABOUT EMOTIONS IN MERGERS AND ACQUISITIONS IS NEEDED

Emotions play a crucial role in everybody's life. They are always present, they enrich experiences, challenge and make us feel alive. Over the last few decades, emotions have been studied in different disciplines. Psychologists, sociologists, anthropologists, philosophers, brain researchers, neurobiologists and neurophysiologists approached this subject from diverse perspectives and agreed that emotions strongly influence human thinking and acting.

While mainstream management literature is still on a 'rational' track that disregards emotions, some recent developments recognize the importance of addressing emotions in organizations. The same is true for merger and acquisition (M&A) literature. Day-to-day perceptions confirm that mergers and acquisitions are highly emotional life events for all those affected. But only after years of 'merger mania', combined with high failure rates (about 70 per cent of all mergers fail to reach their initial goals), has the importance of focusing on 'soft' issues been acknowledged. Nevertheless, even within the people-oriented stream of M&A literature, emotions as such are still underresearched. Emotions are mentioned in the context of the so-called 'merger syndrome', but they are almost never studied explicitly.

1.1.1 Why Should Managers Learn about Emotions?

Considering the high M&A failure rates, which are often combined with personal human tragedies, managers have to ask themselves: what can leaders do to make a merger or an acquisition a more successful and a more pleasant experience for all those affected? The present book was inspired by this highly relevant question, which has only received limited attention in current M&A literature.

1.1.2 Some Critical Questions which will be Addressed in this Book

Before providing an answer to the question how to manage emotions in order to integrate successfully two or more organizations, some other questions have to be answered:

- Why do mergers fail so often to reach their strategic and financial goals?
- Why are changes related to mergers and acquisitions such emotionally challenging events?
- What are emotions, actually?
- Which kinds of emotions are experienced in post-merger integration stages?
- How to deal with them?
- How does managerial behaviour and communication influence emotions of employees?
- Why do employees' emotions count? What impact can employees' emotions have on M&A outcomes?
- Do positive or negative emotions contribute more to an efficient and successful merger process? Can consciously 'installed' negative emotions, such as fears and feelings of uncertainty and stress, make M&As more efficient?
- Why not just ignore emotions, and behave like 'rational' grown-ups?

These and many similar questions will be answered in this book.

1.2 M&As AND MANAGEMENT CHALLENGES

Mergers and acquisitions (M&As) have dominated business headlines and the world economic scene for more than two decades (Buono *et al*., 2002). There were five major waves of mergers and acquisitions in the 21st century (Buckley and Ghauri, 2002). The last wave began at the end of the 1990s and experienced its peak with a transaction volume of almost US$3.5 trillion worldwide in 2000. While the merger wave declined in recent years, it seems to have risen again since 2003 (ThomsonFinancial, 2004).

Strictly speaking, only a very small number of all so-called 'mergers and acquisitions' are real mergers according to the definition of 'merger' and 'acquisition'. An acquisition is usually known as the purchase of more than 50 per cent of an existing target company's stock capital, or as the complete takeover of a factory or department which is legally dependent on another company (Gerpott, 1993), while a merger is understood as a complete union or amalgamation of two or more companies in order to become a managerially interwoven, economical and legal unity (Gabler-Verlag, 1993). Therefore, even if the two partners are considered to be equal, in reality most of the cases are an acquisition in which one organization takes over the control of the other (Buckley and Ghauri, 2002; Buono *et al.*, 2002; UNCTAD, 2000). In fact, fewer than 3 per cent of cross-border mergers and acquisitions by number are mergers. Nevertheless the literature as well as colloquial language use the term 'merger' or 'M&A' to refer to what is actually an acquisition (Buckley and Ghauri, 2002). This custom is also followed in the present book.

M&As often became a high-risk form of business activity involving the collective annual financial investment and influencing the working lives of millions of employees. Most executives justify their decision to merge with economic considerations (Ivancevich *et al.*, 1987; Jansen, 2001; Marks, 1988; Oehlrich, 1999). However, in the long term it is suggested that between 50 and 80 per cent of all mergers are financially 'unsuccessful' or at least show no significant increase in terms of financial return (Buono *et al.*, 2002; Cooper and Gregory, 2003; FAZ, 2000; Marks, 1988; Wirtschaftswoche, 2002).[1] Between one-third and one half of all M&As fail owing to underestimated human factors (Cartwright and Cooper, 1993a, 2000; Dannemiller Tyson, 2000; Davy *et al.*, 1989). The literature since the late 1980s has suggested that human aspects should be considered of equal, if not of greater, importance in mergers and acquisitions, especially if the statement, 'Financial synergy is dependent upon "people synergy" ' (Cartwright and Cooper 1990, p. 68) is taken seriously. But decision makers and managers still seem largely to overlook this fact. In other words, the reasons for failure often do not lie in the hard factors but in the forgotten soft factors. Managers' attitude that they are not able to manage those soft factors, the absence of simple models to apply, or simply managers' belief that human factors are not crucial for a successful M&A, lead to a neglect of essential soft factors (Schuler and Jackson, 2001).

An increasing amount of literature recognizes that steps undertaken in the pre-merger stage have a big influence on the success of the post-merger phase (Appelbaum *et al.*, 2000a, 2000b; Cartwright and Cooper, 2000; Jansen, 2001). This book, however, does not emphasize the pre-merger planning in general. It rather focuses on the conscious designing of communication and integration processes in order to approach and involve a critical mass of employees who accept the M&A decision, support the implementation and make its success possible. Just the awareness of employees' emotions, a sound knowledge of how emotions emerge and of their potential consequences for the M&A implementation can help managers to prepare individuals in leading functions to better manage the post-merger integration process.

1.3 M&As AND RESEARCH CHALLENGES

In academic as well as managerial discussions, financial, legal and strategic factors are strongly emphasized. Most M&A studies measure success in economic terms only, and therefore the greater part of literature does not even mention human factors. Most research studies and the majority of M&A decision makers follow this track. Their decisions are thus overtly motivated, evaluated and justified by economic aspects, ignoring culture and people-related issues (Ivancevich *et al.*, 1987; Marks, 1988).

For a long time the rather small amount of published psychological/behavioural research on mergers and acquisitions was widely criticized for being fragmented and limited whereas M&A reality was supposed to be a complex phenomenon. This literature was also criticized for having 'contributed little of substance to the acquisition debate' (for example, Buono *et al.*, 1985; Hunt, 1988). However it has to be pointed out that, after decades of forgotten human factors in M&As, the importance of soft factors seems to be increasingly recognized. This trend started in the late 1980s and is reflected by a rising number of studies since 1990 concerning the human factor in mergers and acquisitions. These studies typically focus on issues such as the compatibility of organizational cultures, employee expectations, the impact of uncertainty and stress on job satisfaction, psychological contract, motivation, commitment and loyalty, unproductive behaviour, absenteeism rates, lower morale and acts of sabotage (for example, Bruckman and Peters, 1987; Buono and Bowditch, 1989a; Buono *et al.*, 2002; Cartwright and Cooper, 1990, 1993b; Cooper and Finkelstein, 2004; Hall and Norburn, 1987; Hubbard and Purcell, 2001; Jemison and Sitkin, 1986; Schuler and Jackson, 2001; Siu *et al.*, 1997; Werner, 1999).

For many psychologists, sociologists, neurobiologists and brain researchers alike, it seems to be evident that emotions play an important role in human thinking and acting (for example, Ciompi, 1999; Elster, 1999; Frijda, 1986; LeDoux, 1998; Martin, 1998). Over the last few years, general management literature has also shown increasing interest in emotions.

Over the previous 60 to 70 years research of affects at the workplace had not progressed significantly. While progress had been rather slow and episodic over all those years, development seems to have been more rapid recently. 'Objectively, emotions matter because many forms of human behaviour would be unintelligible if we did not see them through the prism of emotion': with these words Elster (1999, p. 404) makes a claim for everyone in management to study emotions. Indeed, organizations are increasingly considered to be 'emotional arenas' (Fineman, 2000), and emotions develop into a kind of a subdiscipline in the study of work and organizations. An increasing movement towards a more 'passionate' management is discernible now (Krell and Weiskopf, 2001). Applied psychologists are increasingly studying the relations between emotions and motivation (Pinder, 1998), the consequences of affect and mood at work (for example, Bartel and Saavedra, 2000; Herriot, 2001; Weiss *et al*., 1999) and emotional contagion: the 'catching' and passing on of emotions (Doherty, 1998; Verbeke, 1997). More popular management literature comes up with 'emotionalized' issues such as workplace envy, intimacy, sexual harassment and stress (Fineman, 2000). One of the most fashionable topics among organizational consultants and psychologist is 'emotional intelligence' (Abraham, 1999; Goleman, 1995; Goleman *et al*., 2002b). Emotionally intelligent individuals are supposed to be better and more successful leaders. As emotional intelligence is believed to be a skill one can learn, for a few years now, management training has been mushrooming in the USA and in Europe. Another area of concern in the organizational context is the emotional–aesthetic experience (Wasserman *et al*., 2000). People are influenced by the places and objects around their work place. Machines, office layouts, colours, noise, music, task activities, food and so on are sources of emotional experiences because they trigger – through all senses – 'feelings of "rightness", discord, warmth, harshness or alienation' (Fineman, 2000). Major management symposia, conferences, publications and web-based discussions are now incorporating emotions in their programmes. On bookshelves we find titles such as: 'Emotions in the Workplace' (Kluger and Rafaeli, 2000), 'Emotional Impact: Passionate Leaders and Corporate Transformation' (Channer and Hope, 2001), 'The Emotionally Intelligent Workplace' (Cherniss and Goleman, 2001), 'Applying Emotional Intelligence in the Workplace' (Cooper, 1997), 'Emotion in Organizations' (Fineman, 2000), 'Primal Leadership: Realizing the Power of Emotional Intelligence' (Goleman *et al*., 2002b), 'Emotions at Work' (Herriot, 2001) and many more.

Though several disciplines, including recent management literature, consider emotions a crucial factor in human behaviour, it comes as a surprise that the M&A literature is still largely neglecting these issues. Only a few recently published studies incorporate emotions (Fugate *et al*., 2002; Kiefer, 2002b). This is in sharp contrast to day-to-day perceptions and to reports which recognize that mergers and acquisitions elicit deep emotions such as irritation, anger, aggression, frustration or anxieties about losing career opportunities or even one's job. Negative M&A-related

emotions and desperation may sometimes even lead to suicides (Buono and Bowditch, 1989a).

Some managers intuitively know how to cope with such emotions of employees. Others do not either because they do not know how they could positively influence employees' emotions or because they are completely unaware of others' emotions. The impact of various styles of managerial communication and behaviour on employees' emotions during the M&A process is still unclear. Cognitive appraisal theorists assert that the central nervous system of individuals needs to be exposed to internal stimuli (that is, thoughts) and/or external stimuli (someone else's statements or behaviour) in order to evaluate those stimuli. Depending on the relevance, urgency or danger of the stimulus for the individual, the brain is more or less activated. This leads to a physiological state, called 'emotion', which is linked to a certain readiness to act. We deduce that employees' perception of managerial communication and behaviour constitutes a stimulus for employees. Therefore we suggest that managerial stimuli will have an influence on emotions of employees and on their disposition to react and contribute during phases of major organizational changes. Consequently it is imperative for managers to realize how their words and behaviour will have an impact on co-workers' emotions and employees' 'natural' way to react. With this awareness it will be easier to guide communication and integration processes towards success for all parties.

Against this background, which is determined by (a) the fact that mergers and acquisitions are highly emotional events for all those affected, (b) the suggestion from several disciplines that emotions are a crucial factor in human behaviour, (c) rather low levels of awareness regarding the role of emotions in organizations in general, and (d) an unconsolidated literature base on emotions in M&As, it is considered important to provide updated theoretical and empirical insights.

1.4 OBJECTIVES AND CONTRIBUTION

The work we have carried out focuses on employees' emotions after the announcement of the upcoming organizational changes; that is, in the post-M&A phase. Some statements regarding the 'merger syndrome' (for example, Appelbaum *et al.*, 2000b; Marks and Mirvis, 1997b) assume that managers' behaviour and communication styles in the post-merger integration process might have an influence on employees' emotions. Therefore the intention is to examine theoretically and empirically the connections between employees' emotions, managerial behaviour and communication styles, and M&A outcomes.

Specifically the objectives and the contribution of the present book are as follows:

1. to create awareness of emotions in mergers and acquisitions;
2. to introduce emotions in M&A literature by providing a comprehensive conceptual framework that is able to explain the connections between management of emotions and M&A success;
3. to present 'toolkits' for emotions measurement in M&As which can guide managerial decision making;
4. to analyse four different M&A cases and to draw conclusions regarding which managerial behaviour and communication style triggers which kinds of emotions in employees;
5. to describe which effects these employee emotions have on certain M&A outcomes.

1.5 ORGANIZATION OF THE STUDY

In order to achieve the objectives mentioned above, the work will start with a conceptual background which helps to promote a broader understanding of current literature in the field and which ends with the development of a conceptual framework. Part I presents the empirical project with its result, followed by a discussion of the findings.

Part I provides the conceptual background on M&As and emotions (Chapters 2–4). It starts with a literature review regarding merger and acquisition processes (Chapter 2). After an introduction to the phenomenon of M&As and its crucial soft factors, the 'merger syndrome' is analysed.

The emotional turmoil of post-merger integration, mentioned in the context of the merger syndrome, stems largely from the fact that members of the merging organizations have to cope with a change of their social identities. Social identity theory helps to explain group formation processes and group identities, as well as emotions felt towards the own group (ingroup) and other groups (outgroups). Since mergers and acquisitions are highly emotional processes of group formation and changing group identities, social identity theory will be used as background for a deeper understanding of merger integrations and the role of emotions in the context of social identities. This will be the content of Chapter 3.

Chapter 4 deals with emotions in post-merger integration. The first section, on theoretical bases, defines emotions and describes how they emerge. Different perspectives on emotions will be presented by discussing their relation to rationality and by giving an overview of current emotion theories. In this context, cognitive appraisal theory of emotion will be adopted as the theoretical background for the present work. The following section analyses current M&A literature with respect to emotions. Based on cognitive appraisal theory of emotions, section 4.3 views managerial communication and behaviours in M&As as causes of employees' emotions. Section 4.4 relies on social identity theory and explains some specific M&A outcomes as a function of emotions. As a result of the literature review, a conceptual framework of the role of emotions in the M&A process will be developed in section 4.5.

Part II of the work is devoted to empirical M&A case studies. Chapters 5 and 6 present the goals, procedures, methods and the sampling frame. The findings of the qualitative study are presented in Chapters 7 to 10.

Part III of the book discusses the findings of the empirical study and its limitations. It concludes with implications for future research and for management.

NOTE

1. In these sources 'success' is always understood as the non-achievement of the initially intended M&A objectives, thus the term 'success' usually refers to financial aims.