



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Master Degree Project in Management

A Study of Growth through Acquisitions
Implications for the employees

Emma Kenwood

Supervisor: Gary Kokk
Master Degree Project No. 2013:52
Graduate School

A study of growth through acquisitions: Implications for the employees

Emma Kenwood

MSc. Management, Graduate School, School of Business, Economics & Law, Gothenburg

Abstract

While previous research on mergers and acquisitions has been mostly focused on large to middle sized firms, this is a study of a micro company using a growth-by-acquisition strategy. In five years the company has done five acquisitions of other micro firms and grown from three to seventeen employees. This study aims at presenting how these acquisitions were managed and how the employees have experienced the process. Through semi-structured interviews and observations it was found that the acquirer's main focus was to increase market share and improve its strategic market position, but little attention has been spent on how the employees perceive the process. In the uncertainty experienced by the employees in the turmoil of acquisitions, they express a need for (a) more communication, (b) clarity regarding issues of operative integration and (c) distinct leadership. Instead, however, the opposite has happened. As the company has grown the managers/owners have become increasingly busy and thus less visible for the employees.

Keywords: Acquisition, Case study, Micro company, Growth

Introduction

The reigning economical state, technological development and globalization have created a need for organizations to continuously change and adapt to the market. To handle such issues organizations use mergers and acquisitions (M&A) as a strategy to grow, obtain core competencies and strengthen competitiveness (Klendauer & Deller, 2009). In this paper a case study of a micro company using a growth-by-acquisitions strategy is presented, with focus on how the employees experience the process. It has been stated by for example Hirsch (1986) that even the friendliest acquisition disrupt social relations within a company and is stressful for the employees. Meanwhile, Larsson & Finkelstein (1999) stress that M&A often fail to deliver the intended results but is continuously used.

The financial and strategic parts of M&A have for a long time been dominant within this research area, while the human resources (HR) part in recent years has emerged and been recognized to have large impact on the success of M&A. The Economist Intelligence Unit (2008) state that the core issue within change is people and this is supported by Choi (2011) who argue that the failure of many change processes are caused by the underestimation of the importance of the employees. A common though and expression is however that people resist change, but as Evans & Pucik (2005) notice “People do not resist change, they resist *being* changed” (Evans & Pucik, 2005, p.417). This means that to receive a successful implementation of a change program the concerned people need to be involved in the process (Evans & Pucik, 2005). These examples and statements are mostly considering middle-sized and large companies, which is also the case with most research within M&A today. The focus on M&A within micro and small companies is not at all as elaborated in the existing research. According to Landström & Johannisson (2001) a company is considered as small when it has up to 50 employees and as micro if it has less than 10 employees.

This paper presents a case study of a company which has grown through acquisitions between 2008 and 2012. To keep the company anonymous the fictitious name NewCo is used in this paper. The company has grown from three to seventeen employees, and thus from micro to small company, through five acquisitions in five years. The study aims at contributing to the research of M&A within micro and small companies.

Purpose and research question

The present study aim to explore how employees at micro/small companies experience the acquisition process. This is to increase the knowledge of aspects that mark acquisition processes in small and micro companies.

The research question for this study is the following,

- How do the employees at the case company perceive the acquisition processes and how these are managed?

Structure

The paper is divided into five main parts. In the first section the theory used as the analytical tool for the study is presented. The next section contain methodology and a description of how the data is collected and analyzed. In the third section, the organizational setting is described through background of the company and information about the acquisitions. Next the results are presented through three themes identified from the empirical findings. In this part the empirical data is combined with a discussion regarding each theme and the section ends with a concluding discussion. The last part presented contain the conclusions of the study.

Theoretical framework

In this section of the paper, a theoretical framework for the analysis of this study is presented. The existing research within M&A is mostly focused on middle-sized to large companies. This is while research of small and micro companies is more concentrated on organic and rapid growth.

The role of leadership in acquisitions

The challenge of managing people and emotions is significant in change processes, including M&A, and tend to have large impact on the outcome (Haspeslagh & Jemison, 1991, Sitkin & Pablo, 2004). A committed and available leader is thus considered to facilitate the change-process for the employees (Schweiger & Lippert, 2005, Seo & Hill, 2005).

According to Sitkin & Pablo (2004) leadership should be part of the process perspective of acquisitions according to figure 1 (see below). Through appropriate leadership, key issues within M&A can be improved. One dimension of leadership is the personal leadership, which consider the leader to share his/her vision, values and emotions. To address the issue of instilling a new sense of purpose after an acquisitions this kind of leadership could be used. When members of the organization need to identify themselves with the new company, the leader should be an inspiring figure to increase loyalty. Through successful personal leadership the employees' recognition of wanting to be part of the new organization may increase. Another dimension is supportive leadership which is about building security and confidence among the employees. This kind of leadership foster interactions and integration dynamics within acquisitions. In a context of change individuals go through different phases and the risk aversion tend to increase. Through supportive leadership such issues can be reduced and the employees feel secure to take risks and also improve the business.

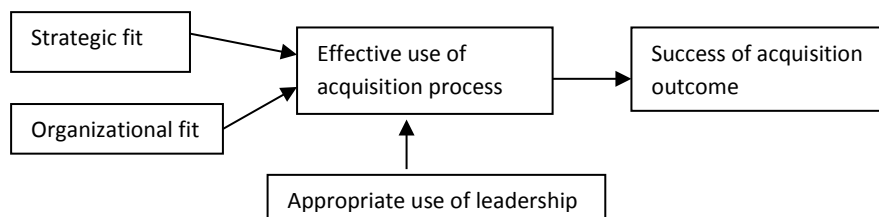


Figure 1. Application of leadership to the M&A process. (Sitkin & Pablo, 2004, p.185)

Rapid growth

Hambrick & Crozier (1985) has done research of firms with a growth rate of at least 50 % annually and found four major challenges facing rapid-growth companies. These are instant size, a sense of infallibility, internal turmoil and extraordinary resource needs. Instant size is considering problems such as poor skills and systems which arise as a consequence when companies double and triple in size. When facing this rapid growth firms tend to view their business as infallible due to the current success. Further internal turmoil is inevitable in a company with such a high growth rate, which also means new people and structures in the organization. Finally resources is likely to be scarce which is affecting the firm. Most companies with this kind of growth do not realize the need to rethink how to manage the company. The fast growth indicate success and future problems tend to be forgotten.

Some general suggestions were identified by Hambrick & Crozier (1985) of how to handle such issues. First, the firm should be seen as a larger entity and employees required for the future operations should be hired in time. Second, when a company is growing managers need to delegate tasks to other people as it is no longer possible to handle everything on their own.

Communication in the acquisition process

Communication is another issue within M&A, and especially insufficient information tend to be a problem which affect the employees significantly (Napier, Simmons & Stratton, 1989, Schweiger & DeNisi, 1991). The reason for increased need of communication derive from the uncertainty and stress that M&A cause among employees (Napier, Simmons & Stratton, 1989). According to Larsson, Brousseau, Driver & Sweet (2004) the feeling of uncertainty in combination with insufficient information can further create a vicious circle. As very little information usually is conveyed the uncertainty increase and employee resistance may appear, which thus contribute to managers sharing even less information to convey a stabile context. To avoid this vicious circle, information sharing through voice, participation in the integration process and two-ways communication is suggested. It is however not unusual that managers are unable or unwilling to share information with the employees which further increase the uncertainty (Schweiger & DeNisi, 1991).

Berger & Calabrese (1975) present a theoretical framework for interpersonal communication. This is mainly based on two axioms, which suggest that (a) with increased communication, uncertainty tend to decrease and (b) when the experienced level of uncertainty increase, individuals seek more information. This implicate that when communication is perceived as insufficient, uncertainty increase. This framework can according to Kramer, Dougherty & Pierce (2004) be applied on M&A, as individuals involved in M&A are facing uncertainty and then seek information from managers and colleagues. General is that M&A cause anxiety which can be reduced through top-down formal communication providing detailed information (Seo & Hill, 2005). To have managers who listen and offer support to the employees and let them participate in the decision-making, also tend to reduce the level of uncertainty (Seo & Hill, 2005).

Post- acquisition integration

“... integration can be defined as the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole.” (Pablo, 1994, p.806)

Integration is an important part of the M&A process and the outcome is directly affected by the level of integration (Larsson & Finkelstein, 1999, Seo & Hill, 2005). In an efficient integration process key competencies should be captured to build a stronger company with preserved values and well utilized assets (Schweiger & Lippert, 2005). It is important to manage HR in the integration of M&A and to let time have its course for the employees to understand the changes (Schweiger & Lippert, 2005). According to Seo & Hill (2005) as a new organization is build a new mutual identity should be created to let the employees identify themselves with the entity. This kind of integration tend to reduce negative feelings and employee resistance.

Ellis (2004) has on the basis of earlier research identified integration approaches in M&A. One is the preservation approach, which is about maintaining both the acquiring and the acquired companies strategic resources and capabilities. Through the preservation approach both firms are kept somewhat independent and limited change is necessary. The symbiotic approach is another way of managing integration, which involves both companies to change to reach a combined result with the best from both parts. This requires identification of best practices in both firms for both companies to adopt to. The symbiotic approach require significantly more changes within the acquired and acquiring company than the preservation approach.

Method and research data

In this section the used methodology and details considering the gathered research data is presented.

The paper is based on a case study at a company which between 2008 and 2012 did five acquisitions and grew from micro to small company. The empirical data for the analysis is gathered through interviews and observations at this company. The case company is chosen for two reasons. First, it is in the midst of a process of change/growth through acquisitions. Second, I am familiar with it through personal connections, and thereby have access. My familiarity with the company is a facilitating factor due to the accessibility and it may also have made the interviewing process easier as I am not unknown for the respondents.

In total interviews with eight people has been done, amounting to approximately one third of the personnel. The first one was with one of the owners, six was with current employees and one with a former employee. All respondents, except the owner, are women in the age of 35-60. This selection represents the employees at the company as they are mostly women, except two of the owners and two managers. As the purpose of the study is regarding how the employees perceive the situation interviews has not been done with the other managers at the

company. The respondents derive from different of the acquired companies to get information regarding all the acquisitions from people at both the acquiring and acquired side.

Five of the interviews were done face-to-face and the remaining three by telephone. The interviews lasted about 30 minutes and I recorded seven while taking notes at one. To record interviews is according to Silverman (2006) important to get the most out of it. The citations are all from current employees at the company and as the interviews were done in Swedish I have translated the citations into English. The information from the owner is used to describe the situation at the company and the different acquisitions, while the information from the other respondents is the basis of the analysis. The information from the owner is also used to develop suitable interview questions for the other respondents. It has been recommended by Mason (2002) to gather information before the interviews to be able to ask the right questions. I used semi-structured interviews and added and adjusted the questions depending on the situation and received responses. This kind of qualitative research method has been suggested by for example Mason (2002) to use in a study that aim to reach depth and to explore people's interpretations and experiences. To increase the anonymity of the employees the whole empirical section is referred to the interviews and only the citations are referred to separate respondents.

In combination with the interviews participant observation has been done. On average one day a week during one month has been spent on the office in Stockholm to do the interviews. In relation to this I have stayed at the office to compile the received information and thereby done observations. I have spent time with the employees and through lunch- and coffee breaks I have been able to observe behaviors and participate in informal conversations regarding the subject.

To analyze the received data the recorded interviews were carefully listened to and the most important parts were transcribed. According to Strauss & Corbin (1990) the rule of thumb is to transcribe as much as needed. From the gathered data relevant areas were identified and the information considering these were transcribed. To further analyze the data, the information were divided into smaller parts to clarify the situation. The company has been analyzed as one unit as it is today, and not from the perspective of each acquisition. The companies have thereby not either been separated as different entities in the analysis. The reason for this is to provide as much anonymity among the respondents as possible and due to the risk of confusion with explanations of many similar companies and acquisitions.

Even though I have access to the company some difficulties has appeared with the gathering of data. As the company is very small it is easy to connect the answers to the employees which might have affected how the employees responded. Some employees express feelings of uncertainty regarding how to answer due to the limited anonymity. To handle this issue the questions was reformed and the purpose of the study had to be reformulated while doing the research.

The organizational setting

This chapter contains background information of the case company, NewCo, and a summary of the acquisitions.

The history of the company

NewCo provides international corporations and their employees with a complete solution of relocation and mobility. This means that it offers for example home search, corporate apartments, intercultural- and language training, work- and residence permit and tenancy management. The company has 17 employees and operates within the relocation, language and intercultural training-business in Stockholm, Gothenburg and Malmö. The story of the company began in 1993 when the relocation part of a large company in Gothenburg was made independent and NewCo was founded. This company was bought by the current owners in 2003 with a turnover of approximately 1.5-2 million SEK. In 2008 the first acquisition was done and the company has since then grown through five acquisitions and from three to seventeen employees. The turnover has increased from 2 million SEK in 2008 to 65 million SEK in 2012 and the organic growth (excluding M&A) has been approximately 38 percent annually between 2010 and 2012. The focus of this paper is however the growth through M&A.

The managerial structure of the company consist of three owners and two additional managers who are responsible for two of the acquired entities. The company is owned and managed by the same people. One of the owners is CEO, one is responsible for the operational part and the third person is responsible for the finances. The three owners are situated in Gothenburg with one of the managers and the other manager is situated in Stockholm.

The involved companies is in this study labelled Company A-E, according to table 1.

Year	Action	Business	Location	Comments
2008	Acquisition of Company A	Relocation	Gothenburg	
2009	Acquisition of Company B	Relocation	Stockholm	
2010	Acquisition of Company C	Intercultural training and translation	Stockholm	Independent brand
2012	Acquisition of Company D	Relocation	Malmö	Empty company
2012	Acquisition of Company E	Relocation	Gothenburg	

Table 1. Company B-F

The acquisitions

The acquisitions are all described by the owner as important and contributing to significant strengths for the organization. The relocation business is an industry with high barriers to entry and strong competition. Company B and D is thereby described as especially important since it gave the possibility to the entry on the market in Stockholm and Malmö. The history of the acquired companies is similar in many ways, but it also differ somewhat among them. Company D was bought without any employees solely to reach the market position in Skåne. Company A and B were prior part of large, well-known companies. Company B was acquired from the large company while Company A was made independent in 1993 and acquired as a

micro company by NewCo in 2008. Company C, D and E were also acquired as micro companies. The acquired companies, except company D as it was an empty company, were further acquired with only a few employees each. In connection to the acquisitions employees has both left the company and new people has been hired. It has overall been a changing context with several new colleagues for all the involved people.

In common for the acquired companies, except company E, is that they were sold due to financial difficulties. The companies had been facing rough years with customer losses and decreasing profitability. Company C was for example a very mismanaged and unprofitable company which NewCo acquired for one SEK and the former owner was relieved to let go of the company. Company A, B and D also suffered from decreased turnover and the owners decided to sell the business. In the case of Company E the former owner was about to retire and thereby decided to sell the company.

Company C and E are separate entities within the company with their own managers and names. Company C is working with translation, language education and intercultural training. This company was intended as a complementary service to the operations of the company, as NewCo with this part can offer everything within the relocation business in-house, except taxation and the physical moving. Company E is situated in Gothenburg and working within the relocation business as the rest of the company. However, the working models, customers and general processes are different from the ones' of NewCo. For example Company E has more focus on offering financial services and a large focus on special parts regarding expatriates from India. At the time of the acquisition two employees and the former owner followed to NewCo and an external CEO was hired to manage the company. After a short period the former owner and one of the employees decided to leave the company.

Results

In this section the findings of the study are presented through three themes. These themes have been identified from the empirical findings and are (1) busy managers, (2) inadequate communication and (3) scarce integration. Within each theme the empirical findings, divided into sub-themes are presented, followed by a discussion regarding each theme. The section ends by a concluding discussion linking the themes together.

One thing recurring when talking to the respondents is that they consider the growth of the company as very positive:” *It is incredible fun that the company is growing.*” (Respondent 2),”*It is always nice to receive greater power.*” (Respondent 3). As the company grows the supply for services and geographical locations are extended which is considered as an advantage for the whole company. “*To be able to offer translation and intercultural training in-house is an incredible good argument for selling.*” (Respondent 1). A larger company is also perceived by the employees to be financially more stable and bring expectations of greater possibilities to develop within the company. However several acquisitions in short time has created feelings of uncertainty among the employees and the implications of this will hereby be explored.

Busy managers

Busy managers is the first theme presented and the sub-themes within this part is the availability of management and the focus on financial results.

Availability of management

The respondents express that while the company has grown, with increased number of employees and offices at new locations, the management team has remained almost the same. Except for two additional managers, responsible for two of the acquired entities, no one else has been designated any managerial responsibility. The way the company is managed has not changed since the first acquisition, except for that the managers has become increased busy as the company has grown: *“Our managers get very busy” (Respondent 2)*. The relocation part in Stockholm and Malmö is continuously managed from Gothenburg which is perceived to increase the unavailability of the managers. *“It is hard to have a head-office in Gothenburg and at the same time have such a large operation in Stockholm as we have, without anyone taking somewhat more responsibility.” (Respondent 1)*. Especially the availability of the operational manager is criticized and the importance of him being present is stressed. *“He only has two legs and two arms – it is not enough.” (Respondent 1)*.

Within a turmoil and changing context the employees argue that support from management is important and something that has been inadequate through the process. *“No one has authority, no one really knows.” (Respondent 4)*. This comment represent the employees' uncertainty and unawareness considering the distribution of working tasks and how things are supposed to be done. The ambiguity has led to that the employees discuss issues with each other but as no one know and no one is responsible, the situation has been unclear.

Focus on financial results

The fact that profitability is the most important thing is stated both by the owner and the employees. *“The result are the most important thing and it is a lot of focus on it. If I do not get my vacation as I want is not important for the company – that is how it is.” (Respondent 1)*. Without profitability there will be no future operation which is a common knowledge within the company and reflected by the apparent result-oriented management. All employees understand that this is necessary due to the small size of the company and state that it probably would be different in a large company. It is also stated that the feeling of constant focus on financial results cause stress and the pressure to invoice sometimes is considerable. However, the focus on results are underlying that the owners have a clear purpose for the company to succeed and grow which the employees mention as a positive aspect. One respondent for example say that the vision of expanding in the Nordic countries is positive and another that the clear vision to grow is motivating.

Even though the financial result is the primary focus the employees also mention that the management team show them appreciation through small bonuses. *“From the company's perspective they back us up with for example a small bonus if we reach the monthly goal.” (Respondent 1)*. Different kinds of training and seminars are also held to give the employees opportunities to develop which is stated as an advantage for the personnel.

Discussion: Inadequate leadership efforts

Little managerial attention has been paid on the employees in the acquisition processes of the case company, instead focus has been on the financial results and to increase the market share. The leadership dimension (Sitkin & Pablo, 2004) can thereby be considered as inadequate. In small companies with high growth rate, scarce resources is a common issue (Hambrick & Crozier, 1985), which likely explain the unavailable managers in this case. As the company grows the management team get increased busy and some parts thereby get less attention. Meanwhile, the employees experience a turmoil with sprawling directives. Through appropriate use of the dimension of personal leadership such issues could be handled (Sitkin & Pablo, 2004). In the context of change the employees need to identify themselves with the new organization which could be improved through an inspiring leader. The problem of uncertainty is also significant at the case company with for example unclear guidelines of responsibilities and authority. This could have been managed through the according to Sitkin & Pablo (2004) supportive leadership. Through this dimension the leader support the employees to build feelings of security and confidence that foster the perceptions of the change process.

The little amount of information that is shared with the employees has contributed to the interpretation of an unplanned and chaotic process. This internal turmoil is however inevitable in rapid growth firms (Hambrick & Crozier, 1985). As strategies and plans are not communicated the employees perceive that the situation is unclear and doubt that management knows what they are doing. According to the employees this might not be the case, management may have a well-reasoned plan and strategy for each acquisition and how this should be integrated, but as this is not shared the trust for management risk to decrease. The acquisitions are however considered as financially and strategically successful by both management and the employees. Within the current success, managers tend to view their business as infallible and future issues are easily forgotten, which tend to be a problem for small fast growing firms (Hambrick & Crozier, 1985).

Inadequate communication

In this section aspects regarding communication is presented through the following sub-themes, the time and amount of information shared with the employees and the level of participation among the employees in the acquisition processes.

Information

The communication before, during and after the acquisitions is described as insufficient by the employees. *"The communication, both between management and to the employees were bad during the whole process."* (Respondent 3).

Within this area of communication, the information about what was supposed to happen and the plans for the acquired companies, is perceived as insufficient. *"We got the information when everything was already decided."* (Respondent 5), *"We do not get any information, what is happening? What is the plan?"* (Respondent 4). The information was shared in a late stage of the process when everything was decided and the pre-process was confidentially managed. That the information was received first when the decision was taken has increased the feelings

of uncertainty and a quick process. Respondent 6 describe the situation by the following comment: *“Changes are very good but you need time to accept them, and sometimes it has been very quick turns – a lot of changes in short time.”* (Respondent 6). Five acquisitions in five years are perceived by the employees as a lot with new colleagues and new services. The quick turns and insufficient information has contributed to feelings among the employees that the acquisitions are unplanned and not very deliberate. The strategy is unknown among the employees and the intended results of the acquisitions are vague.

The employees' experience that more information should have been communicated when the decision of acquisition was taken. Some information was given by management but mostly expressing that the employees should keep working as they do and not mind the new parts. This is however not perceived as enough. The inadequate information about the intention with the new companies and how the integration should be done cause a chaotic feeling. It also contribute to a lot of frustration and unawareness among the employees. The uncertainty is mentioned by some employees to cause that they use precious time to wonder and guess about what to do and what is supposed to happen instead of getting clear guidelines from the start. Respondent 4 say the following comment which also reflect the other respondents' statements; *“It might be that they do not share their plans with us, but from our point of view it seems somewhat unplanned.”* (Respondent 4).

The general belief is that the extended business is positive, but as the information regarding what the different parts are offering is vague it limits the possibility to promote the services of the rest of the company. *“As I do not know anything about them I cannot either promote them to any customers”* (Respondent 4). It is perceived as positive with new supply of services, but the insufficient information and thereby unawareness limit the potential utility of these complementary services. It is however mentioned by the respondents that a seminar regarding one of the acquired company's operations is about to come which hopefully will explicate some ambiguities.

Participation in the process

The employees has not been participating in the pre-acquisition discussions and they have neither received any information about it until the decision was taken. When they got the information from the management team the employees did not perceive that their opinions were considered at all. The message of a new acquired company was described as very sudden and received late in the process.

“From an owner perspective it is understandable that they do not drag the employees into the decision-process” (Respondent 1). As this comment indicate it is understandable that the employees do not participate in the decision process and do not get any information until late in the process. This is explained by that first they are operating in an industry where confidentially is common and necessary, second that this kind of decisions are for management to take and third that the employees do not want or have time to get involved in everything.

That the employees did not participate and did not get any information until after the decision process was finished and that their opinions were not regarded afterwards either have been

perceived to increase the distance between management and the employees. The way the decision was announced, sometimes without any space for reactions and questions did also increase this gap. One respondent for example express that she received the message of a new acquired company by email without any further explanation.

Discussion: Communication and uncertainty

M&A cause feelings of uncertainty (Napier, Simmons & Stratton, 1989) and while these feelings increase, employees tend to request more information (Berger & Calabrese, 1975). The continuously changing context in the case company increase the ambiguity and stress of the employees. This lead to that they request more information from management regarding the acquisitions and the intentions of the take-overs. This issue can be described as a vicious circle of inadequate information in combination with uncertainty, which is common in M&A (Larsson, Brousseau, Driver & Sweet, 2004). As the uncertainty increase managers provide even less information to convey a stable and non-changing context (Larsson, Brousseau, Driver & Sweet, 2004). This vicious circle can be illustrated with the situation at NewCo. While five companies has been acquired the employees experience uncertainty and want information. Meanwhile managers keep the information confidential and do not share it with the employees, which lead to increased feelings of disorder. When the employees do not understand the ongoing changes resistance may appear and it is then presumable that management share even less information, to calm down the employees with the impression of no significant changes. This however, tend to increase the uncertainty even more and thus have the opposite effect.

To provide less information to convey stability does not reduce the anxiety among employees, whereas communication and participation in decision-making does facilitate for the employees in the acquisition process (Seo & Hill, 2005). It is however usual in M&A that managers are unable or unwilling to share information with the employees (Schweiger & DeNisi, 1991). As mentioned by the respondents confidentially is significant in the relocation industry, where the company is operating, and it is thereby understandable that the information sharing is insufficient. It is however still stated to increase the feelings of uncertainty and an aspect that significantly affect the involved people.

Scarce integration

Considering integration two main areas are identified which I have chosen to call: soft and hard integration. The part of soft integration are regarded with for example personal relations between the employees and the hard integration is concerned with operational factors such as work processes.

Soft integration

Soft integration is concerning how the employees have been socially integrated and developed personal relations with the other employees from the acquired companies. *“After all, when I have too much to do and the customers are yelling - the colleagues are what makes me cope and still want to go to work.” (Respondent 1)*. This comment reflects the opinion of the respondents regarding the personal relations within the company. The relation among employees, and also between management and employees is considered as very good, which

indicates that the soft integration has been successful. The overall atmosphere is positive even though the employees at times are busy and stressed.

The respondents express the fact of getting more colleagues as the company grows as very good and that the work group becomes larger as positive. The general opinion among the respondents is that they like their colleagues very much and they all are qualified and competent. This was for example showed by that every time someone say something a little bit negative about some part of the organization she was careful with first to state that they are wonderful persons or similar. It is though mentioned that it is hard to keep close relations with all colleagues as the company is growing at different locations. *“You feel as close colleagues to people in the same office of course” (Respondent 5)*. As the comment by respondent 5 indicates, the employees who work at the same geographical office are closer than between the different cities. Even though management has arranged conferences and meetings between the different offices there is not as close relations between people in different cities, as they meet more seldom.

Only a few employees were added within each acquisition, but it is still new people to get to know. One of the respondents express that trust has to be built with every new colleague as you do not know what you can expect from a person until you have worked with him or her. In this way several acquired companies affect the personal relations and existing social groups.

Hard integration

Within hard integration activities regarding the operations, for example work processes and shared offices, is presented.

“We have not synchronized our operations yet today, NewCo are working with their things and we are a small entity at the office of NewCo. In that point I would consider it a failure regarding the absence of synergy effects that I thought would occur quicker.” (Respondent 3). The work did not change considerably with regard to the acquisitions and the employees kept working as they did before with the same work processes and customers. *“The new companies affect us pretty much, but not work-related, we keep on with our way. However it is a whole new group who come to us and suddenly we are supposed to be one company.” (Respondent 4)*, *“We kept the same colleagues and work. It was just a new environment.”(Respondent 2)*. The acquired companies are still working as separate units within the company with basically the same working processes as before the acquisitions. Integration has taken place through for example shared offices but the three last acquired entities still have their own names, websites and data systems. The employees express a vagueness regarding the position of the new companies and disorder regarding how the different companies are supposed to work together and be integrated. The confusion mainly concerns the integration of the three last acquisitions as the two first formed the foundation of the company and only had each other to integrate with at that time. Company A and B have a mutual name and the impression is that the integration of these two companies has gone further than the others. Company C is expressed by management to be an independent brand, but the intention with company E is unclear. Operational integration is announced to take

place, but at the same time an additional CEO is hired to manage this company as a separate part with two employees. It may be that management has a clear plan and strategy for how the work is supposed to be done and the companies to be integrated, but as this is not shared, the situation feels somewhat chaotic. *“A lot of balls are thrown in the air, but no one ever takes them down, they are just hanging there up in the air – which cause frustration”* (respondent 4).

However as the company has grown the workload has increased and the employees has become busy. The reason for this is foremost that the competition has increased on the market and it is necessary to put more effort into each customer to keep it. The respondents express that due to the heavy work load, less time is spent on trying new work-processes as there is no time for failure. This has also hindered the operational integration with the new companies as there is no time to try out new ways of working. To let the changes bring positive effects, time is necessary and some employees believe that the processes have been too quick without enough time to think about and plan for changes. Overall the employees express that more time would be needed to implement the changes and more information in an earlier state would have been one way to do this.

According to both employees and management no formal arrangements has been done to facilitate the process of integrating the operations. This is explained by management with that the company is too small to have formal integration programs. Several of the respondents nevertheless express dissatisfaction with the way the acquisitions were handled. At times it was announced by the management team that some operational parts should be integrated, but this has barely been done, which has caused additional uncertainty. Further, competencies and knowledge has been lost through the acquisitions: *“There were a lot of good things which could have been brought into the new organization”* (Respondent 2). The employees stress the importance of keeping the knowledge and capabilities from the former companies and that this has been done to some extent, but also that some parts got lost when they were acquired. A feeling of that their knowledge is not valued as much as it should have been is stated by the respondents. Some parts, though, are well maintained, for example the way of working differs somewhat between Stockholm and Gothenburg due to the working habits from Company B that are kept in Stockholm and from Company A in Gothenburg.

It is also mentioned that human capital has been lost with regard to people who has left the company. According to the owner the acquired companies have led to specialization among the employees and better work processes which has increased the productivity and efficiency of the daily work. The employees have however at times felt run-over. For example one former employee explain that she felt that management removed the working tasks she had a great interest in without any discussion with her and that, in combination with several other factors, led to that she decided to leave the company. Some employees express that they perceive that management have the attitude that no one is irreplaceable and if the employees are dissatisfied they have the choice to look for another job. In their deep focus on financial results management sometimes seem to forget that the people working for the company are contributing to the results as an important part. Many employees have long experience from the business and unique knowledge that should be valued and carefully handled. For example

from one of the acquired companies only one of three persons is left, and even if she certainly has a great knowledge, some valuable expertise presumably disappeared with the people who left.

Discussion: The experienced integration

The integration that has occurred between the acquired companies is mostly regarding soft parts, such as conferences and team-building activities. The hard integration is however limited to shared offices and a mutual financial function. The small amount of operational integration has led to that the situation is experienced by the employees to be without integration. However, even though the employees do not notice the integration, efforts may have been taken by management. It can be seen as the three latest acquired companies at NewCo are integrated through a preservation approach (Ellis, 2004). The acquired companies are kept as separate entities and no significant changes has occurred which thereby could be perceived by the employees as no integration. This approach aim to maintain the strategic resources and capabilities of both firms (Ellis, 2004). Whereas the two first companies, B and C, are integrated through a symbiotic approach, which combine the best of both firms (Ellis, 2004). This indicates that the later acquisitions also is about to be integrated through the symbiotic approach. To capture key competencies and preserve values and assets it is important to manage the integration, but also to let time have its course for the employees to adapt to the changes (Schweiger & Lippert, 2005). This could further be the intention of the management team at the company, to let the employees get used to the changing context and slowly integrate the companies through a combination of the best parts from all entities.

In the case company it is apparent that focus has been on the soft integration rather than hard. Operational integration between companies, such as adaption of working procedures, shared data systems and webpages are presumable to be resource demanding. Whereas soft integration, for example conferences, seminars and social activities to foster the relation between employees and managers, is less costly with regard to managerial time and other resources. This is also likely to be a reason for the initial preservation approach at NewCo. Busy managers, as discussed above, is presumable to be another aspect influencing the proceeding of integration. In micro/small companies time and resources tend to be limited and managers have to choose their areas of attention (Hambrick & Crozier, 1985). As soft integration tend to call for less resources and managerial attention it is preferably used in this situation.

Concluding discussion

In this section of the paper the relation between the three areas, busy managers, scarce integration and inadequate communication is discussed. The areas are identified from the interviews and related as shown in figure 2.

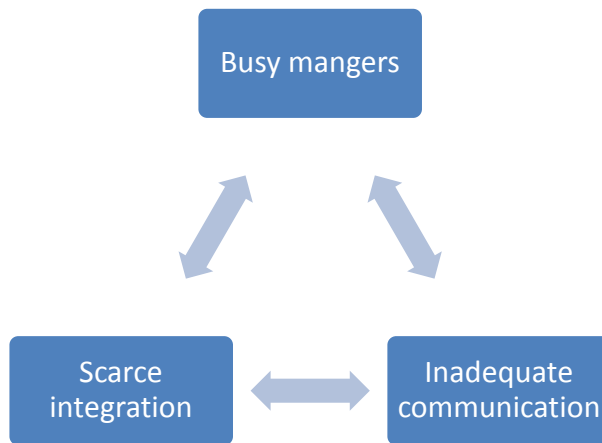


Figure 2. The three areas

Busy managers has a large impact on the two other parts, inadequate communication and scarce integration. In firms that grow through M&A the management of HR has a large impact on the outcome (Schweiger & Lippert, 2005). This is significant in the case of NewCo as the managers' time is insufficient to possibly manage everything. Both the inadequate communication and scarce integration may derive from the managers' lack of time. It is presumable that companies of such small size face this kind of issues as the owners often are managers too. While being both owner and manager the personal interest in the company is likely to be high. It can thereby be hard to delegate responsibilities in order to personally keep total control of the company. In a growing firm it is then even more presumable that time become a scarce resource for managers.

When the communication is experienced as inadequate, the uncertainty tend to increase (Napier, Simmons & Stratton, 1989). In growth through M&A communication between employees and managers are of main importance (Napier, Simmons & Stratton, 1989). This is presumably increased important in a micro-company as the situation tend to be uncertain even without changes. As stated by one of the respondents at NewCo, large companies usually is more stable and experienced as more secure for the employees. However, while the need for communication increase in the process of M&A, managers in micro/small companies tend to become busy and the amount of communication may even decrease. Inadequate communication may also impact the experienced level of integration. At NewCo a preservation approach (Ellis, 2004) is initially used, which means small changes within both companies. This can easily be interpreted as no integration if the strategy is not communicated. The case study point towards the importance of communicating the integration approach as frustration occur due to the uncertainty rather than the perceived absence of integration among the employees at the company. Once again this may depend on that the managers do not have the time to communicate with the employees. Further the integration at the case company has been mostly concerned with soft parts, and the hard integration has been insufficient. Soft integration is important, but without hard integration it does not provide all potential advantages. An example of this is the limited awareness of the different entities among the employees at NewCo. The unawareness is a sign of lacking operational integration which affect the financial results as the employees are unable to

promote the other entities' services and customers may be missed. The hard integration on the other hand tend to foster soft integration and thereby contribute to double advantages. This choice of integration may also be due to that the managers are busy. To arrange activities to foster soft integration, for example a one-day conference between the three offices, is not as resource demanding as hard integration, for example to change into a mutual data system.

If the hard integration would have been done to a larger extent the needed amount of communication is presumable to be less. The uncertainty among the employees is explained by the unawareness of strategy and plans. With a more implemented operational integration the situation would be clearer and the uncertainty would thereby decrease. As argued by Berger & Calabrese (1975) employees do not seek as much information when the uncertainty decrease. However, the focus of NewCo is apparent to be acquiring a larger market share and strengthen the market position rather than to integrate and to profit from competencies and experience of the employees. In connection to one of the acquisitions for example 2/3 of the employees at the acquired company choose to leave the company after the acquisition, and this was not considered a major loss. The company still had the market shares and customers of the acquired company which is regarded as more important. That the company bought an empty company to get the market position in Skåne also indicates that this is the main purpose with the acquisitions. This is likely to be distinctive for a small company as such a loss at a large company would be very serious. Further the lack of a deliberate, well-communicated strategy and no formal integration programs are more likely to happen in small companies than large organizations with structured HR-departments. Even though the strategy is to acquire market shares and positions the human resources should be managed too (Schweiger & Lippert, 2005).

An inconsistency is visible considering the range of changes within the case company. While the employees express that most things remain the same through the acquisitions, they also express that a lot of changes has occurred. This indicates being in a changing context can make people perceive more change than actually take place. Even though the changes do not affect the employees directly, it does affect them indirectly through being in a constantly changing environment with new services and colleagues within the company. The increased uncertainty that derive from the acquisitions may also be one aspect of the experienced change. Whereas the work-situation has not changed, the new feeling of insecurity is an obvious turn for the employees.

Finally, the inadequate managerial attention, communication and hard integration might derive from that the employees simply is not the main focus of management. Within a micro company with the purpose to increase its market share and profitability, other aspects may be more important than the employees. The financial figures point towards that acquisitions is a successful way to grow for the case company. So far the limited attention paid on the employees has neither given any significant consequences. At the writing point of this paper NewCo has also done its sixth acquisition which indicates that it will continue with the strategy of growth through acquisitions.

Conclusion

In contrast to earlier research within M&A which has put focus on large companies this study focus on a micro company with the aim to grow through acquisitions. The aim of this study has been to explore how growth through acquisitions in micro companies affect the employees. This is done through a case study of a company that have done five acquisitions in five years, whereby it has grown from three to seventeen employees. The findings from this case study may have relevance also for other companies, of similar size, that embark on a growth by acquisitions strategy. It thereby contributes to previous work with insight into problems that may appear in this kind of smaller companies.

First, acquisitions tend to create a turmoil and increased uncertainty among the employees which has been argued by researchers (Napier, Simmons & Stratton (1989) and Haspeslagh & Jemison (1991)) and also shown through this case study. Within the uncertainty created by the acquisition process employees need increased managerial attention. However, it is plausible that managers in micro companies become busy in the acquisition process and spend their attention on other aspects. In contrast to large companies, where resources are likely to exist to hire new managers if needed, micro companies face issues of too little time and resources (Hambrick & Crozier, 1985).

Second, what I have described as soft integration often require less resources than hard integration. Consequently, in situations when time and other resources are scarce, as is common in micro companies, management presumably choose to focus on soft rather than hard integration. While soft integration create a positive environment through conferences and other team building activities, it is usually insufficient by itself. Hard integration is necessary to reach synergy effects and build feelings of community.

Suggestions for future research

The need for more research of micro/small companies growing through acquisitions is evident. The results from the present study are based on a case study of one company. The implications from this study thereby need to be further explored through research at other micro companies with a growth through acquisitions.

Acknowledgements

I would like to thank my supervisor for his valuable input and the respondents at the case company for enabling this study.

References

Articles

Berger, C. R., Calabrese, R. J., 1975. Some Explorations in Initial Interaction and Beyond: Toward a Developmental Theory of Interpersonal Communication. *Human Communication*

Research. [Online] 1 (2), pp. 99-112. Available through: Wiley Online Library. [Accessed: 2013-05-19]

Choi, M., 2011. Employees' attitudes towards organizational change: A literature review. *Human Resource Management*. [Online] 50 (4), pp. 479-500. Available through: Wiley Online Library. [Accessed: 2013-04-24]

Hambrick, D. C., Crozier, L. M., 1985. Stumblers and Stars in the Management of Rapid Growth. *Journal of Business Venturing*. [Online] 1 (1), pp. 31-45. Available through: Elsevier Science Publishing. [Accessed 2013-05-19]

Hirsch, P. M., 1986. From Ambushes to Golden Parachutes: Corporate Takeovers as an Instance of Cultural Framing and Institutional Integration. *American Journal of Sociology*. [Online] 91 (4), pp. 800-837. Available through: JSTOR. [Accessed: 2013-04-24]

Klendauer, R., Deller J., 2009. Organizational justice and managerial commitment in corporate mergers. *Journal of Managerial Psychology*. [Online] 24 (1), pp. 29-45. Available through: Emerald. [Accessed 2013-04-24]

Kramer, M. W., Dougherty, D. S., Pierce, T. A., 2004. Managing uncertainty During a Corporate Acquisition, A Longitudinal Study of Communication During and Airline. Acquisition. *Human Communication Research*. [Online] 30 (1), pp. 71-101. Available through: Wiley Online Library. [Accessed: 2013-05-19]

Landström, H., Johannisson, B., 2001. Theoretical foundations of Swedish entrepreneurship and small business research, *Scandinavian Journal of Management*. [Online] 17 (2), pp. 225-248. Available through: Elsevier Science Ltd. [Accessed: 2013-04-24]

Larsson, R., Finkelstein, S., 1999. Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquisitions: A Case Survey of Synergy Realization. *Organization Science*. [Online] 10 (1), pp. 1-26. Available through: JSTOR. [Accessed: 2013-04-24]

Napier, N. K., Simmons, G. & Stratton, K., 1989. Communication During a Merger: The Experience of Two Banks. *Human Resource Planning*. [Online] 12 (2) pp. 105-122. Available through: EBSCOhost. [Accessed: 2013-04-25]

Pablo, A. L., 1994. Determinants of Acquisition Integration Level: A Decision-Making Perspective. *The Academy of Management Journal*. [Online] 37 (4), pp. 803-836. Available through: JSTOR. [Accessed: 2013-04-25]

Schweiger, D. M., DeNisi A. S., 1991. Communication with Employees following a Merger: A Longitudinal Field Experiment. *The Academy of Management Journal*. [Online] 34 (1), pp. 110-135. Available through: JSTOR. [Accessed: 2013-04-24]

Seo, M., Hill, N. S., 2005. Understanding the Human Side of Merger and Acquisition: An Integrative Framework. *Journal of Applied Behavioral Science*. [Online] 41(4), pp. 422-443. Available through: Sage publications. [Accessed: 2013-04-24]

Books

Haspeslagh, P. C., Jemison, D. B., 1991. *Managing Acquisitions: Creating Value through Acquisition Activity*. New York: Free Press.

Strauss, A., Corbin, J., 1990. *Basics of Qualitative Research*. California: Sage Publications Inc.

Mason, J., 2002. *Qualitative Researching*. 2nd ed. London: Sage Publications Ltd.

Silverman, D., 2006. *Interpreting Qualitative Data*. 3rd ed. London: Sage Publication Ltd.

Chapters in edited books

Larsson R., Brousseau K. R., Driver M. J., Sweet P. L., 2004. The Secrets of Merger and Acquisitions Success: A Co-Competence and Motivational Approach to Synergy Realization. In: Pablo, A.L., Javidan M., 2004. *Mergers and Acquisitions Creating Integrative Knowledge*. Blackwell Publishing Ltd. Ch. 1.

Ellis, K. M., 2004. Managing the Acquisition Process: Do Differences Actually Exist Across Integration Approaches?. In: Pablo, A.L., Javidan M., 2004. *Mergers and Acquisitions Creating Integrative Knowledge*. Blackwell Publishing Ltd. Ch. 7.

Sitkin S. B., Pablo A. L., 2004. Leadership and the M&A Process. In: Pablo, A.L., Javidan M., 2004. *Mergers and Acquisitions Creating Integrative Knowledge*. Blackwell Publishing Ltd. Ch. 10.

Evans, P., Pucik, V., 2005. People and Cultural Aspects of Mergers and Acquisitions: What are the lessons... and the challenges? In: Stahl, G.K., and M.E. Mendenhall (eds.) (2005). *Mergers and Acquisitions: Managing Culture and Human Resources*. Stanford, CA: Stanford Business Books. Ch. 19.

Schweiger, D. M., Lippert, R. L., 2005. Integration: The Critical Link in M&A Value Creation. In: Stahl, G.K., and M.E. Mendenhall (eds.) (2005). *Mergers and Acquisitions: Managing Culture and Human Resources*. Stanford, CA: Stanford Business Books. Ch. 2.

Websites

The Economist Intelligence Unit, 2008. *A change for the better Steps for successful business transformation, A report from the Economist Intelligence Unit* [Online] Available at: < <http://www.celerantconsulting.com/~media/PDF/Surveys/SV-A-change-for-the-better.pdf> > [Accessed: 2013-05-05]

