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Key Employee Retention in M & A Transactions

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FOREWORD

Mergers and acquisitions (M&A) transactions are well-known phenomena in all industries and play an important economic role. This notwithstanding, it is reported that a majority of M&A transactions fail to meet their intended purpose. The human factor is seen to play an important role for such high transaction failure rates. Thus, retention of key employees is deemed to be an important factor for M&A transaction success. The author's experience as legal counsel in a number of M&A transactions has confirmed the importance of key employee retention.

A critical evaluation of the literature reveals that the human factor is, indeed, seen as a key element for M&A transaction success and that such success may be influenced by key employee retention. The evaluation has further revealed that perception by the employees of M&A transactions may influence their reaction to the resulting major changes. The key employees' reaction is, further, influenced by a number of external factors that affect the M&A transaction process (such as, e.g., legal restrictions and the economic climate) as well as internal measures that managers design with a view of retaining key employees.

The author has applied qualitative research methodology and has carried-out a research which has been based on in-depth interviews with managers that have been involved in their relevant capacities in various M&A transactions. The primary data collected has been carefully analyzed and used to develop a validated research model of factors that may influence key employee retention. A comparison of this validated research model with the literature review results shows some inconsistencies between the literature review results and the research results. It further reveals a number of additional factors not yet expressly addressed in the literature that may play an important role in key employees' perception of an M&A transaction and their decision to stay or to depart when such a transaction occurs.

The study provides comprehensive answers to the research questions developed herein and allows to identify and present a number of practical implications for management with a view to key employee retention in an M&A context.

This study has been written from an economic/business standpoint[1]. This notwithstanding, it shall also provide guidance to the legal practitioner who is involved in M & A transactions and, in particular, is to design solutions that shall enable retention of key employees.

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[1] It is based on a dissertation submitted in the year 2009 in partial fulfilment of the requirements for the degree of Masters of Business Administration.

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Chapter one – Introduction

1.1   Introduction to the chapter

This chapter one provides an introduction into and brief overview of the present paper. In this chapter the author will, first, provide a short introduction to the subject and the purpose of this work. In a next step, a description of the research questions will be presented. This will include an explanation as to why these questions are important. The author will then provide some background information to the present work as well as to the study that has been conducted. This will be followed by a brief overview of the research results. Finally, the author will provide a short introduction into the other chapters of this paper and summarize the content of this chapter one.

1.2   Introduction into the subject and purpose of this work

Mergers and acquisitions ($M\&A$) are well known phenomena in all business sectors and may involve important transactional values. According to Kiessling & Harvey (2006), in the year 2004 M & A transactions worth USD 1.95 trillion were announced in the U.S. (Kiessling & Harvey, 2006, p. 1307), and according to Appelbaum et al. (2007b), on a global level almost 4'000 M & A transactions have been performed in the year 2005 (Appelbaum et al., 2007b, p. 191). Notwithstanding the important values and volumes of M & A transactions that are at stake academic writers suggest that many such transactions fail to achieve their intended purpose. According to Amiot, Terry & Callan (2007), for instance, the failure rate is between $60-70\%$ (Amiot, Terry & Callan, 2007, p. 557), while Schraeder & Self (2003) suggest that between $55-70\%$ of M & A transactions "fail to meet the anticipated purpose" (Schraeder & Self, 2003, p. 511).

Academic writers identify the human factor as an important reason for M & A failure or success. It is suggested, more specifically, that retention of key employees plays an important role for post-merger success (Kiessling & Harvey, 2006, p. 1308). The departure of respected role models is seen as having "a severely disruptive and demotivating impact on those who remain" (Cartwright & Cooper, 1993, p. 8), and departure of key personnel is further seen as creating post-merger loss of productive capacity (Crouch & Wirth, 1989, p. 4). Such loss of post-merger capacity may have negative effects on post-merger performance (Cannella & Hambrick,

1993, p. 149) and, thus, deteriorate the target organization's value, and, as a consequence, the acquirer's objectives and capital expenditure for the acquisition will be harmed.

In light of the importance of key employee retention for M & A success, the purpose of this work is to describe the factors that may contribute to the key employees' decision to remain with the current employer or to depart when an M & A transaction takes place. The study has also sought explanation as to what managers can do to avoid key employee departure under such circumstances.

1.3   The research questions and their importance

Given the importance of key employee retention, it is important for managers to understand what factors may influence key employees in an M & A transaction and may cause them to depart or to remain, respectively. Based on this knowledge managers can assess what measures they may apply when they are confronted with an M & A transaction in order to keep key employee retention level high.

For these reasons the following *main research question* shall be investigated in this work: What factors influence key employees in their decision to stay with the employer or to depart when an M & A transaction occurs?

More specifically, this study shall result in investigating the following *critical sub-questions*: To what extent are key employees relevant for success of a mergers and acquisition transaction? How do employees perceive major change situations resulting from mergers and acquisitions transactions? How do external factors influence key employee retention or departure, respectively? How do internal factors influence key employee retention or departure, respectively? How can leaders identify key employees? What can leaders do to retain key employees in M & A transactions?

1.4   Some background information to the present study

The author's practical day-to-day work as business lawyer has inspired him to do write the present paper. In his capacity as external legal counsel he has been involved in local as well cross-border and international M & A transactions many times. The author has been advising sellers, buyers as well as, in some cases, management of the target organizations. Because of this practical expertise the author has become familiar with the process-

es that are usually performed when M&A transactions are implemented and has been confronted with various practical issues that may emerge in the context of M&A transactions, such as, in particular, the issue of key employee retention.

1.5 Brief outline of the methodology and methods used

Qualitative methodology has been used for the research, and the author has conducted in-depth, individual interviews in one-on-one sessions, either in person or over the phone. The responses of the participants have been carefully noted in order to maintain richness of the responses obtained. The data analysis method applied has enabled the author to identify various dimensions of factors that may influence key employee retention as well as to ensure validity of the results and to appropriately address and mitigate effects of the methodological weaknesses.

1.6 Overview of the results

Based on an extensive review of the literature the author has developed a conceptual research model of factors influencing key employee retention. In a next step, the author has carefully analyzed the primary data that has been collected and has, on this basis, developed a validated research model. A comparison of these models reveals that the primary data confirms a majority of the factors that have been identified on the basis of the literature review and the conceptual model.

Critical evaluation of the literature as well as the research results reveal that five dimensions and their interplay influence key employee retention in mergers and acquisition transactions: (i) Importance of the human factor for M&A success, (ii) perception of major changes resulting from M&A transactions by employees, (iii) external factors affecting the processes of M&A preparation and completion, (iv) internal measures designed to retain key employees, and (v) the issue of key employee identification. This will be elaborated in more detail in the following chapters.

1.7 Synopsis of the chapters

This paper is structured as follows: The present chapter one provides an introduction to the topic, to the research questions investigated and to the results obtained. Chapter two will present the results of the literature review and will develop a conceptual research model of factors that may

influence key employee retention. Chapter three will present in detail the research methodology applied, the data collection and analysis methods used as well as the measures undertaken to ensure validity and reliability of the research. Chapter four will present the results from the research, discuss the research results and develop, on that basis, a validated research model of factors influencing key employee retention in M & A transactions. Chapter five, finally, will summarize the study's findings, provide the key conclusions and discuss the implications for management. It will further discuss the weaknesses of the research and emphasize on further research opportunities.

1.8 Summary

In this chapter one an introduction into the present study has been provided. The author has briefly outlined the research questions and their importance in respect of the subject matter. Further, a brief outline of the methods used in collecting primary data as well as a short overview of the results have been provided. In the next chapter the author will critically evaluate what has been said in academic literature in relation to factors influencing key employee retention in M & A and how the present work fits into such literature.

Chapter two – Review of the Literature

2.1 Introduction

This chapter two will provide an analysis of the theoretical background and contemporary ideas relating to the subject matter as available in published literature. It shall allow to discuss the present work in its relevant context and to give a state-of-the-art background with a view of identifying "where the work fits in with previously published work" (White, 2000, p. 83). To this end, chapter two will provide (i) a critical evaluation of importance of the human factor in M&A, and (ii) perception of major change situations by employees, (iii) a critical evaluation of external factors influencing M&A preparation and implementation, (iv) a critical evaluation of internal measures designed for key employee retention as well as (v) a critical evaluation of key employee identification. This will culminate in the explanation of the research question and the presentation of a conceptual research model.

2.2 Critical evaluation of the importance of the human factor for M&A success

The critical evaluation of the literature about the importance of the human factor in M&A transactions has revealed a number of dimensions that underpin importance of the human factor in such M&A context. The findings shall be presented as follows: First, this section explains how M&A transactions are defined as knowledge of the characteristics of M&A transactions is important for understanding how key employee retention and M&A transactions are interrelated. In a next step, this section will evaluate how, based on the literature, the human factor, in particular key employee retention, is linked to M&A success. Then this section will evaluate what can be found in the literature about goals of M&A transactions and M&A transaction success in order to explain the link between M&A success and key employee retention.

2.2.1 Definition of M&A transactions

M&A transactions lead to certain forms of concentrations among two or more organizations or part of organizations. An *acquisition* can be described as the acquiring of the sole control over all or a part of an undertaking or organization, whereby, in general, such sole control is acquired "through a purchase by one company of a majority of the voting shares of another

company" or "via the acquisition by one company of all or part of the assets of another company" (Van Bael & Bellis, 2005, p. 747). The former scenario is often known as *share deal*, while the latter is often called *asset deal*. In contrast to an acquisition, a *merger* occurs where "an undertaking is absorbed by another to form a single entity, with only the latter retaining its legal entity, or where two or more independent undertakings combine to form a newly created undertaking and cease to exist as separate legal entities" (Van Bael & Bellis, 2005, p. 748). In case of one organization absorbing another the merger is usually called an *absorption*, while in the case of two organizations combining to a newly created organization the merger is usually called a *combination* (Bauen & Bernet, 2007, p. 284).

2.2.2 Economic importance of M & A transactions

M & A are well known phenomena in all business sectors and may, as indicated in the introduction to this work, involve important transactional values. According to Kiessling & Harvey (2006), in the year 2004 M & A worth USD 1.95 trillion were announced in the U.S. (Kiessling & Harvey, 2006, p. 1307), and according to Appelbaum et al. (2007b), on a global level almost 4'000 M & A transactions have been performed in the year 2005 (Appelbaum et al., 2007b, p. 191).

2.2.3 High failure rates in M & A

Despite the large number of M & A transactions and the high transactional values involved, it is reported that a large number of M & A transactions fail to achieve their economic aims. According to Amiot, Terry & Callan (2007), the failure rate is between 60 – 70 % (Amiot, Terry & Callan, 2007, p. 557). Schraeder & Self (2003) suggest that between 55 – 70 % of M & A transactions "fail to meet the anticipated purpose" (Schraeder & Self, 2003, p. 511), and Bryson (2003) estimates that the failure rate is between 50 – 80 % (Bryson, 2003, p. 14). Even if it will not be possible to exactly assess how many M & A transactions do actually fail to meet their intended purpose, one may assume in light of the published literature that, in general, the failure rate is exceeding 50 %.

2.2.4 Key function of the human factor in M & A transactions

Various authors have investigated importance of employee retention and employee turnover, respectively, for successful implementation of M & A transactions. Amiot, Terry & Callan (2007) suggest that investigating the

reasons for M&A transaction failures from a pure economic perspective would not provide the required insights; it is rather necessary to take into account human factors to really understand what happens during such transactions and why such transactions may fail (Amiot, Terry & Callan, 2007, p. 557). Academic writers suggest that for ensuring successful M&A implementation human factors are key (Kiessling & Harvey, 2006, p. 1307) and stress that assessing why M&A transactions may fail and ensuring success of such transactions requires that the human factor is seriously considered: Relying "on a strictly economical point of view is unlikely to provide insights into why mergers often fail" (Amiot, Terry & Callan, 2007, p. 557).

2.2.5   Employee retention as key human factor for M&A success

Loss of key personnel is seen as one important element under the human factors that may impact successful implementation of M&A transactions. In respect of employee retention it is suggested that in "many acquisitions, one of the most valuable resources of the firm is the retention of the target firm's management team … and the key employees" (Kiessling & Harvey, 2006, p. 1308). Also according to Cartwright & Cooper (1993), key employee retention plays a major role for success of M&A transactions as loss of expertise and "the departure of respected role models" has "a severely disruptive and demotivating impact on those who remain" (Cartwright & Cooper, 1993, p. 8). Likewise, Crouch & Wirth (1989) emphasize the negative effects of employee turnover on post-merger operations; they contend that departure of key personnel will create loss of productive capacity and, therefore, suggest that retention of key employees will be "positively associated with the success of an acquisition" (Crouch & Wirth, 1989, p. 4).

From an acquirer's point of view it is, thus, important that in case of loss of the organization's most valuable key employees or executives the organization's value may deteriorate and the acquirer's objectives and capital expenditure for the acquisition may be harmed as key people departure after M&A may have negative effects for post-merger performance (Cannella & Hambrick, 1993, p. 149).

Employee turnover, in general, includes two different types, i.e. involuntary turnover which includes "dismissals, layoffs, retirements, and deaths" as well as voluntary turnover which includes all employee-initiated departures (Berg, 1991, p. 268). This paper will focus on voluntary departures

in the context of M & A transactions only as involuntary turnover is not related to the research questions investigated herein.

In limiting the foregoing, it must also be noted that employee retention can be a serious threat to transaction success if the wrong people stay. "Disenchanted employees who stay on after the merger … can disrupt schedules and marketing plans, reducing the productive capacity of the new enterprise" (Crouch & Wirth, 1989, p. 5). Employee retention in the context of M & A transactions should, thus, be seen as an issue that is important from two distinct perspectives: There will be negative outcomes if those people leave that could contribute to the post-merger success of the new organization. On the other hand, there may likewise be negative effects if those people that can harm post-merger success remain. This risk seems to be a reality: "Often the better managers or those with knowledge and experience needed to help integrate the companies are the ones to leave" (Crouch & Wirth, 1989, p. 5), while the others are the ones to stay.

2.2.6   Transaction goals
According to Buono (2003), "hard synergies" and "soft synergies" are to be distinguished when M & A transaction goals are defined. Buono (2003) further suggests that hard synergies include visible figures, such as cost reductions and/or revenue enhancement, while the soft synergies focus on the transfer of core competencies and best practices which are important for the long-term success. The latter requires that particular attention is paid on the human capital (Buono, 2003, p. 94) and, thus, on key employee retention. According to Buono (2003), however, still too many companies treat an M & A transaction as a pure engineering exercise consisting of a "series of rational decisions" in terms of savings and revenue growth, instead of also taking into consideration the "personal, interpersonal … and intergroup dynamics that follow the combination of two firms" and which are key factors for the long-term success or failure of the transaction (Buono, 2003, p. 91).

2.2.7   Risk of underestimating importance of key employee retention
The investigation of Buono (2003) has revealed that a number of those organizations that had formed the subject of the investigation had failed to retain key people. These organization had too strongly focused on short term success and neglected and, thus, underestimated the human factor,

a fact that undermined "their ability to capture long-term possibilities" (Buono, 2003, p. 93).

2.2.8   M & A success measurement

Measuring success of M & A transactions is not the primary topic of this paper. M & A performance is a wide area and would for itself form the scope of a separate academic work. In the context of the present paper it shall only be noted that despite the massive amount of research done, "there is little or no agreement … on how to measure acquisition performance" (Zollo & Meier, 2008, p. 55). According to Zollo & Meier (2008), M & A success can, for instance, be investigated from a subjective dimension where qualitative assessments of degrees of synergy realization and efficacy of integration processes play the key roles, by using objective measurement methodologies where financial figures are key as well as from an organization level perspective where success is determined by assessing e.g. improvement of the organization's competitive position, the outcome of the knowledge transfer process and employee and top management turnover (Zollo & Meier, 2008, p. 55 and p. 56). M & A success measurement, thus, heavily depends on the particular circumstances and the goals of the involved parties.

2.2.9   Employee retention as M & A success measure

In the context of M & A transaction success key employee retention may not only be one of the key preconditions for transaction success, but also a determinant to measure success of the transaction itself (Zollo & Meier, 2008, p. 56 and p. 64). This is confirmed by e. g. Galpin & Herndon (2008) for whom key executive and key employee departure would be a clear symptom of poor M & A integration (Galpin & Herndon, 2008, p. 8).

2.2.10   Measurement of employee retention success

Not much literature has been published about how to measure retention success. Bryson (2003) explains that a key measure to establish successful management of human resources may be "the number of grievances formally lodged by employees" (Bryson, 2003, p. 21).

2.3 Critical evaluation of perception of major changes by employees

Critical evaluation of the literature has shown that there is a variety of re-actions that employees may display if they are confronted with an M&A transaction. Understanding these reactions is important for evaluating what kind of external and internal factors may influence employee retention.

The literature review reveals that M&A transactions are seen as major change situations. The most relevant reactions that employees display under such situations and that are discussed in the literature are (i) fear, dis-trust and other emotional reactions, (ii) resistance, as well as in contrast hereto (iii) commitment. The employees' perception of the situation will also be influenced by how they feel that alternative job offers are available.

2.3.1 M&A transactions are major change situations

M&A transactions are seen as causing major organizational change situ-ations: "Few organizational change experiences are as comprehensive and challenging as a merger. When two firms combine ... major changes fol-low" (Cornett-DeVito & Friedman, 1995, p. 46). Likewise, Nikandrou, Papalexandris & Bourantas (2000) suggest that M&A are important organ-izational change situations: "Acquisitions are among the most traumatic types of organizational change" (Nikandrou, Papalexandris & Bourantas, 2000, p. 335).

2.3.2 Fear, distrust and other negative emotions

Academic writers discuss a variety of reactions that employees display in ma-jor change situations. According to Schraeder & Self (2003), for instance, employees are often afraid of layoffs, loss of control, possible relocation, loss of identity or work reputation as well as unknowns in respect of new responsibilities (Schraeder & Self, 2003, p. 514). Bryson (2003) suggests that employees will have, among others, concerns in respect of job security and procedural fairness (Bryson, 2003, p. 15). Seo & Hill (2005) contend that it is extremely difficult to manage this type of large-scale change as it has "traumatic impacts on employees, such as layoffs, turnover, stress, and ill-ness" (Seo & Hill, 2005, p. 423). In an earlier paper Somers & Bird (1990) have suggested that M&A transactions usually cause considerable stress on employees whose concerns include reduced job security and reduced promotion opportunities (Somers & Bird, 1990, p. 38). Hoare & Cartwright

(1997) also emphasize the stress factor and contend that the uncertainties associated with such transactions will trigger uncertainty and insecurity and will lead to "increased stress among all those involved in the process", in particular among those employees that feel that what is going on is outside their control (Hoare & Cartwright, 1997, p. 197). According to Morrell, Loan-Clarke & Wilkinson (2004), organizational change will be perceived by employees as a "shock" and shock will have a "main" or even "overwhelming" influence on the employees' decision to quit (Morrell, Loan-Clarke & Wilkinson, 2004, p. 168). According to Stum (2001), the most basic need of employees is safety and security, i. e. "a psychological belief that the environment is safe from fear, intimidation or interpersonal treatment that is threatening" (Stum, 2001, p. 7).

2.3.3 Resistance among the target workforce

Somers & Bird (1990) suggest that the first two years after the merger are the most problematic in terms of employee stress and employee turnover, and further contend that resistance against the change is mostly "present among members of the target firm" (Somers & Bird, 1990, p. 38 and p. 41). According to Shrivastava (1986), the impact of M & A transactions on morale is generally negative and "anger, resentment, and hostility that build up may be expressed in subversive behavior and a drop in productivity" (Shrivastava, 1986, p. 72).

2.3.4 Commitment / Positive perception among target workforce

In contrast to Somers & Bird (1990), Panchal & Cartwright (2001) have concluded that one would expect that employees of the acquired organization would be those who are most affected (Panchal & Cartwright, 2003, p. 425). However, their research results suggest that employees of the acquired entity were significantly more committed to the transaction and the resulting new organization (Panchal & Cartwright, 2003, p. 428). In their case the acquiring entity was much larger than the acquired entity and the employees of the acquired entity recognized new opportunities that they would obtain through the acquisition, while the employees of the acquiring entity felt they may loose status through the going together with that much smaller entity. Panchal & Cartwright (2003), thus, concluded that the results of their research could be explained "within the conceptual framework of social identity theory" as one may conclude that the transaction "offered acquired company employees an opportunity to improve

their social identity, whilst undermining that of the acquiring employees" (Panchal & Cartwright, 2003, p. 429).

2.3.5 Perceived ease of movement

A specific factors that may influence employee turnover not only in the context of M & A transactions, but also in a more general sense is perceived ease of movement. Kim & Lee (2007) suggest three major causes for employee turnover: perceived ease of movement, work attitudes towards the employer and working conditions (Kim & Lee, 2007, p. 230). According to these authors, perceived ease of movement is directly linked to factors such as age, education and tenure (Kim & Lee, 2007, p. 230).

2.4 Critical evaluation of external factors influencing M & A preparation and implementation

Critical evaluation of the literature has further shown that external factors may affect key employee retention in M & A transactions. Understanding these factors is important for evaluating how outside factors may determine employee retention success and how such external factors may limit managers' abilities to cope with the matter of employee retention. The most relevant of such external factors that are discussed in the literature are (i) legal restrictions that may be imposed on the parties to an M & A transaction, (ii) lifecycles of M & A transactions, (iii) legal restrictions and ambiguity, (iv) cultural differences, and (v) external threats to retention success.

2.4.1 Legal restrictions to M & A processes

M & A transactions may be the subject to certain legal restrictions, particularly from an antitrust or merger control law as well as stock exchange law perspective. In many jurisdictions an M & A transaction may only be perfected if it has been cleared by the competent antitrust authorities, unless the organizations' turnovers and/or the transaction size are below certain threshold amounts so that the effects of the transaction on the relevant markets are deemed insignificant. For instance, in respect of M & A transactions that have a Community wide dimension in the European Union, the relevant rules under European Community law provide that such transactions are automatically suspended until they have been declared compatible with the common market (Wish, 2001, p. 766). The transaction may, thus, only be perfected after such clearance has been given by the com-

petent authorities. Such perfection of the transaction is usually called the *closing*, whilst the entry into force of the transaction contract is usually called the *signing* (Tschäni, 2003, p. 46).

The waiting period between signing and closing may last some weeks or even months depending on how deeply the competent authorities are investigating the case. During such waiting period the organizations involved may be exposed to certain legal requirements which prevent them from integrating the transaction and, in particular, limit the organizations in their endeavours to address the key employee retention issue. Under an antitrust law perspective the organizations may be restricted in exchanging any kind of information that is deemed competitively sensitive if the organizations are competitors and the sharing of such information would, thus, create a risk of collusive behaviour between the entities concerned pending clearance by the authorities: "Indeed in some circumstances it may be that the mere exchange of information will in itself be sufficient to eliminate normal competitive rivalry" (Wish, 2001, p. 441). Therefore, under such circumstances organizations try to minimize the exchange of information pending closing and to limit the circle of persons involved pre-closing. Further restrictions may result from stock exchange rules and regulations if any of the organizations involved is a listed company. In many jurisdictions stock exchange rules oblige the listed company to disclose to the public potentially price sensitive information in order to avoid insider trading and to ensure equal treatment among the investors. In Switzerland, for instance, any change in structure such as a merger or acquisition is regarded as price sensitive information that must, as a rule, immediately be disclosed by means of a so-called ad hoc notice (Bauen & Bernet, 2007, p. 324). However, under specific circumstances the organizations may withhold publication of the merger or acquisition until signing, provided strict confidence is ensured. If, however, a leak occurs and information about the transaction becomes known, the organization must immediately make the ad hoc notice (Bauen & Bernet, 2007, p. 327). This is another reason why the parties try to keep confidential the fact that negotiations are going on and to involve only a limited number of people. Although such behaviour is appropriate from a legal perspective, it must be recognized that it will, on the other hand, restrict the parties in addressing retention issues in the early stages of the transaction.

2.4.2 Lifecycles of M&A transactions

Chanmugam et al. (2005) who investigated M&A transactions from an economic, rather than legal standpoint, emphasize that M&A transactions extent over a certain period of time and should, thus, be seen as holistic processes that need to be consistently dealt with through the pre-merger as well as the post-merger phases, rather than treating these phases as discrete tasks using different teams. According to these authors, where "the teams working on the synergy capture in the post-merger integration process had no idea what level of synergies were needed to recover the premium that was paid for the acquisition" the chances of a successful transaction are remote (Chanmugam et al., 2005, p. 44). Cornett-DeVito & Friedman (1995) who investigated communication processes and merger success likewise contend that M&A transactions extend over a certain period of time and need to be divided into "fairly predictable chronological stages"; they identify a first phase which covers the period from making the decision to acquire and/or merge until making the announcement of the deal, a second phase (the "initial combination process") that usually lasts up to one year after the announcement and the third phase (which they call the "postmerger adjustment") that follows the second phase and may last some more years (Cornett-DeVito & Friedman, 1995, pp. 51 and 52). M&A transactions, thus, extend over a certain period of time and undergo various phases not only for legal, but also for practical, business reasons.

2.4.3 Legal restrictions increase ambiguity

As in those M&A transactions that are subject to regulatory approval very few information may be shared or disclosed to a wider audience before the required antitrust approval is obtained, an atmosphere of ambiguity and uncertainty may be created that usually causes "the rumor mill to swing into full tilt" (Thach & Nyman, 2001, p. 146). While under such conditions in the pre-merger phase some high-level planning may take place, few specific information may be exchanged so that the employees potentially affected will not know how many positions will be redundant, a fact that may cause employees to be "beset with anxiety with the fear of either losing the job, or – in some cases – working for a company that they have no interest in working for" (Thach & Nyman, 2001, p. 146). For these reasons, Seo & Hill (2005) conclude that uncertainty will play an important role in the pre-merger phase, while it may loose importance in the com-

bination phase where inter-group conflicts may play a pre-dominant role (Seo & Hill, 2005, p. 434).

2.4.4 Cultural differences

Appelbaum et al. (2007b) also suggest that different factors will be decisive during the different phases of the merger and contend that in the post-merger phase differences between corporate cultures of the two entities involved will be dominant and that this stage will be the most difficult period to put together the new organization (Appelbaum et al., 2007b, p. 193). Appelbaum et al. (2007b) further contend that there is increasing evidence "that cultural incompatibility is the single largest cause of lack of projected performance, departure of key employees" as well as for conflicts in M & A transactions (Appelbaum et al., 2007b, p. 192). Buono, Bowditch & Lewis (1985) suggest that corporate culture and the required change of culture are "among the most difficult for human beings, since culture provides the foundation for one's life" and that, thus, M & A related changes are often resisted or even "sabotaged because of threats to the pre-existing cultures" (Buono, Bowditch & Lewis, 1985, p. 497).

Schraeder & Self (2003) also emphasize on the importance of culture fit and suggest that many M & A transactions do not only lack "logically sound, comprehensive, and objective evaluation", but also a lack of comprehensive culture fit due diligence and that such lack usually leads to post-merger cultural issues (Schraeder & Self, 2003, p. 513). Cusella (2000) contends that if cultures do not fit the outcomes of the transactions can be seriously harmed: "If culture determines and limits strategy, a cultural mismatch in an acquisition is as great a risk as a financial, product, or market mismatch" (Cusella, 2000, p. 669). Cartwright & Cooper (1993) also emphasize on the importance of cultural differences and cultural change and conclude that this "is one of the most seriously underestimated problems" in M & A transactions (Cartwright & Cooper, 1993, p. 10). Finally, Riad (2005) contends that corporate culture differences may become crucial issues particularly in settings where one entity is acquired or absorbed by another entity or where a smaller and thus weaker entity merges with a larger and stronger entity; this may lead to marginalizing the smaller entity or to even destroying its own corporate culture (Riad, 2005, p. 1538 and p. 1539).

2.4.5 Threats to retention success

The critical evaluation of the literature shows that the importance of the human factor in M&A transactions is not only relevant if key people leave, but also if employees stay, particularly if they are trying to achieve personal benefits through the management and implementation of the transaction, rather than pursuing goals that serve the overall goals of the organizations. In other words, retention can also be harmful in cases where managers are seeking to keep their power in the post-merger organization and are tempted to trade-off shareholder interests for their right to remain at the top hierarchy of the organization (Wulf, 2004, p. 61). According to Wulf (2004), there is a risk that "target CEOs trade power for premium" in order to protect their own personal interests (Wulf, 2004, p. 96). This may not only put at risk M&A transaction success, but also, and more specifically, retention success. It can, thus, be theorized that retention success can be negatively influenced if external interests, i.e. interests that are not congruent to the target's and/or acquirer's interests, are pursued.

2.5 Critical evaluation of internal measures designed for key employee retention

The review of the literature has shown that academic writers discuss a variety of internal measures that may affect key employee retention, some of which are also directly related to retention in M&A transactions. Understanding these measures may serve as a basic orientation for managers to appropriately address the issue of key employee retention. The internal measures that are identified in the literature can be divided into two distinct categories: (i) measures that affect the integration process and, thus, indirectly affect the key employees, as well as (ii) measures that will directly affect and influence key employees.

The most relevant of such internal measures that are discussed in the literature and relate to the integration process include (i) personal perspectives created through the integration, (ii) appropriate implementation measures, (iii) workload reduction, and (iv) speedy integration. The internal measures that may directly affect and influence employees as discussed in the literature are (i) incentive pays, (ii) limitations to incentive pays, (iii) the right to speak up, (iv) creation of trust, (v) sensemaking, (vi) communication, (vii) the handling of emotions, (viii) frequent and open communication, (ix) the application of empathy, and (x) cultural integration.

A. Internal process related measures:

2.5.1   Creation of personal perspectives

Bryson (2003) identifies job security as one of the key factors for work-force stability in M & A transactions (Bryson, 2003, p. 23), i. e. the perspective of the employees concerned that there will be a future in the new organization. Millward & Kyriakidou (2004) contend that attractive new opportunities within an attractive new environment will positively influence the employees affected by the M & A transaction and suggest that to "facilitate member dissociation from old organizational attributes, these must be presented as unattractive relative to the new more positive merged identity" (Millward & Kyriakidou, 2004, p. 16). Stum (2001) links personal perspectives to personal commitment. Personal commitment means that employees are proud to be with a given organization, try to be highly productive and will remain with that organization, thus keeping retention rates high. According to Stum (2001), such workforce commitment is driven by factors such as safety, rewards, affiliation, job opportunities and work/life balance (Stum, 2001, p. 8). Kim & Lee (2007) suggest that "satisfaction with opportunities for career advancement has an inverse relationship with turnover intentions" as well as that "the higher the feelings of appreciation", the lower will be the chance of employees leaving (Kim & Lee, 2007, pp. 233 – 234). Sigler (1999), finally, suggests that improving employees' job satisfaction by, for instance, offering pleasant working conditions, giving autonomy in their job functions and offering specific employee training programs to allow them to learn new skills will be an appropriate measure to retain key employees (Sigler, 1999, pp. 3 – 4).

2.5.2   Implementation measures

Chanmugam et al. (2005) suggest a number of practical measures that may increase likelihood of a successful transaction integration. With a view of the length of the acquisition and integration stages of M & A transactions they recommend to consistently "re-recruit the best and the brightest of both organizations" in order to minimize the loss of key personnel "during the tough integration work" (Chanmugam et al., 2005, p. 46).

2.5.3   Reduction of workload

Appropriate implementation measures shall, according to Chanmugam et al. (2005), particularly include that the implementation managers ensure

that the affected workforce is not exposed to unsustainable workloads and suggest, to this end, to double up and/or retain executives in interim integration teams (Chanmugam et al., 2005, p. 46).

2.5.4   Speedy integration

Bert, MacDonald & Herd (2003) who have investigated M & A transaction execution put their focus on the first two years following the transaction. According to their findings M & A transactions require speedy execution post-closing and contend that the organizations have just two years to make the transaction work: "After year two, the window of opportunity for forging merger synergies has all but closed" (Bert, MacDonald & Herd, 2003, p. 42). Although not expressly said one may conclude that M & A transactions that are not speedily integrated will cause concerns among the workforce affected, may cause frustration and, in the end, key employee departure.

B. Internal employee related measures

2.5.5   Incentive pays

Also Sigler (1999) identifies job satisfaction as a key measure to cope with employee retention in general, i. e. unrelated to M & A transactions. He further explains importance of incentive compensation in order to reward higher performing employees and establish fairness. In terms of content of incentive payments he suggests that they should ideally consist of cash bonuses as well as compensation in the form of company stock in order to balance short-term and long-term objectives and achievements (Sigler, 1999, p. 3).

2.5.6   Limitations to incentives pay / Money as a "quick fix"

However, there seem to be limitations related to incentive pays. Hannay & Northam (2000) suggest that although monetary elements, such as wages and benefits, are often the most important factors to attract new employees to an organization, "it is the intangible factors that play the most important role in retaining them"; intangible factors will include factors such as employee autonomy, work challenges and work variety (Hannay & Northam, 2000, p. 67). According to Hannay & Northam (2000), many employee retention strategies include "spending more and more money on higher salaries, signing bonuses and increasingly expensive benefit programs", a

strategy that, however, may not create the desired results as their study has shown that "individualizing jobs to satisfy employees' needs for autonomy, challenge and growth" will be more effective with regard to employee retention (Hannay & Northam, 2000, p. 71). The study of Hannay & Northam (2000) culminates in the catchy statement that money may often be used as a "quick fix" to solve the retention issue, but that showing personal perspectives to the employees affected will be more effective in respect of employee retention (Hannay & Northam, 2000, p. 71).

2.5.7 The right to speak up

Other writers emphasize the importance of communication for employee retention in general. It is suggested that communication should be a two-way process and not only occur downstream (from management to employees), but rather down- and upstream, i.e. that the employees should have the possibility to speak out. Spencer (1986), for instance, investigated the correlation between the possibilities of workers to express their dissatisfaction and employee turnover. Spencer (1986) suggests that the more opportunities an organization provides to its employees to express dissatisfaction "over aspects of their work in order to change dissatisfying work situations" the higher the likelihood that the employees will not leave (Spencer, 1986, p. 498).

2.5.8 Creation of trust

In the context of organizational change van Vuuren & Elving (2008) have investigated importance of communication on employee satisfaction and employee retention. They emphasize, in particular, importance of communication as a means to create trust within the affected workforce (van Vuuren & Elving, 2008, p. 350). Nikandrou, Papalexandris & Bourantas (2000) have concluded that employees' perception of trustworthiness of the new managers is key and that such trustworthiness is likely to be higher if there is frequent communication to the employees of the acquired organization before and after closing of the transaction (Nikandrou, Papalexandris & Bourantas, 2000, p. 336 and p. 343).

2.5.9 Sensemaking

Van Vuuren & Elving (2008) consider sensemaking as another important communication tool (van Vuuren & Elving, 2008, p. 351). Sensemaking requires that change agents will recognize and consider how the affected

employees' will perceive the proposed change and its impact on their future roles and responsibilities: "This perspective suggests that people who intend to change the way people work have to consider what this means to the meaning that people hold about their work, job role, and the status they derive from daily interactions in the work place" (van Vuuren & Elving, 2008, p. 354).

2.5.10 Communication

More generally, effective communication is seen as an important tool for implementing organizational changes and, in particular, M & A transactions: "Merged organizations integrate more effectively when appropriate amounts of … communication are provided at each stage of the process" (Cornett-DeVito & Friedman, 1995, p. 54). Communication is, thus, seen as one of the key drivers for successful implementation of a merger or acquisition (Bert, MacDonald & Herd, 2003, p. 47) and even "appears to be the key variable to make the … merger process more effective and actually successful" (Appelbaum et al., 2000, p. 682). For Papadakis (2005) communication is "one of the most significant factors contributing to the successful implementation of the M & A" and to minimize the negative impacts on the atmosphere among the affected employee groups and to create a positive team spirit towards the transaction (Papadakis, 2005, p. 248).

2.5.11 Handling of emotions

Communication with the employees is directly linked to management's ability to recognize how the announcement of the transaction may affect the emotions of the employees concerned. It is, thus, suggested that the M & A implementation managers carefully handle the "emotional fallout" caused by the announcement and "take the time to talk with employees about emotions – holding discussion sessions and encouraging employees to vent" (Thach & Nyman, 2001, p. 147). In other words, communication is seen as to require more than just sending out e-mails and announcements in other formats. Efficient communication will rather require the creation of appropriate "forums for dialogue and interaction" that will help to convey the required messages in order to raise confidence among the employees affected (Ashkenas, DeMonaco & Francis, 1998, p. 176).

2.5.12 Frequent and open communication

Effective communication requires that the leaders significantly increase the number of staff meetings in order to inform the employees about any news of the implementation process, "even if there is no news to report" (Thach & Nyman, 2001, p. 148).

2.5.13 The role of empathy

Efficient communication and the handling of emotions further require that management will be empathic towards the affected employees and provide them with all the "necessary and valid, objective information" in order to reduce their stress and increase their efficiency at work (Appelbaum et al., 2000, p. 682).

2.5.14 Cultural integration

Cultural differences may be another serious issue in M & A transaction integration. Schraeder, Tears & Jordan (2005) suggest that organizational culture is an important factor in organizational change in general and conclude that an "organization's culture is a product of successfully adapting to the environment and will, as a result, resist change" (Schraeder, Tears & Jordan, 2005, p. 493). Against this background, they suggest that leaders play an important role in integrating the different corporate cultures and that successful introduction of the change will depend on how well they promote the change through paying particular attention to the current organization culture and the role of values, behaviors, norms and symbols within the organization affected by the change (Schraeder, Tears & Jordan, 2005, p. 497).

2.6 Key employee identification

The critical factors influencing key employee retention as well as M & A success are dependent on the accurate identification of those people that are actually key for post-closing success. This topic is discussed in the literature as follows.

2.6.1 Top level executives as key employees

As a general rule, it can be said that the key employees of a target firm are considered valuable intangible assets, particularly in the today's marketplace which is knowledge-based in may cases and "knowledge and the competencies built upon this platform could be the main factor in deter-

mining an organization's current and future value" (Kiessling & Harvey, 2006, p. 1308). In respect of the people that are considered key Cartwright & Cooper (1993) suggest that "the departure of respected role models" has "a severely disruptive and demotivating impact on those who remain" (Cartwright & Cooper, 1993, p. 8). For Cartwright & Cooper (1993) key people are, thus, employees that are "role models" and can influence followers. Kiessling & Harvey (2006) emphasize importance of the retention of the target organization's top management team and suggest that for "continued good performance of a successful target firm, key managers need to be retained" (Kiessling & Harvey, 2006, p. 1308). Based on their research they suggest that the degree of retention of the top management team of the acquired organization positively influences post-merger performance of the target and that post-merger employee retention is positively influenced by top management team retention (Kiessling & Harvey, 2006, p. 1314). Kiessling & Harvey (2006), in other words, consider top management as key employees in the context of M & A transaction integration. Likewise, Bergh (2001) focuses on the effects of keeping top executives of the acquired entities. Interestingly, his findings not only suggest that retention of top executives of the acquired organization will positively affect post-merger performance, but also that the longer tenured top executives are the more valuable to retain and that "the arguments that such top executives should be replaced by shorter tenured executives may be one reason why so many acquisitions fail" (Bergh, 2001, p. 615). He further suggests that longer tenured executives have more company-specific knowledge and wisdom and that such factors will outweigh the potential disadvantage that longer tenured executives may be more reluctant to accept the change and may be more committed to the status quo (Bergh, 2001, p. 616). Bergh's (2001) findings seem to correlate with the work of Iverson & Pullman (2000) who have established that in change situations resulting from M & A transactions younger employees are more likely to voluntarily quit than older employees who are less willing to resign (Iverson & Pullman, 2000, p. 992).

2.7   Summary of the key employee retention influence factors

The critical evaluation of the literature reveals a number of critical factors influencing key employee retention. These factors can be categorized and allocated to five basic dimensions:

2.7.1 Importance of the human factor for M&A transaction success

This dimension is underpinned by the following factors (i) economic importance of M&A transactions, (ii) high failure rates in M&A, (iii) key function of the human factor in M&A transactions, (iv) employee retention as key human factor for M&A transaction success, (v) transaction goals that depend on key employee retention, (vi) the risk of underestimation of the importance of key employee retention, (vii) M&A success measurement, (viii) key employee retention as M&A transaction success measure and (ix) measurement of employee retention success.

2.7.2 Perception of major changes by employees

This dimension is influenced by the following factors: (i) M&A transactions as major change situations, (ii) M&A transactions causing fear, distrust and other negative emotions, (iii) M&A transactions causing resistance among the target workforce, (iv) M&A transactions leading, on the other hand, to commitment to M&A among target workforce, and (v) perceived ease of movement.

2.7.3 External factors influencing M&A preparation and implementation

This dimension is influenced by the following factors: (i) Legal restrictions during M&A transactions, (ii) lifecycles of M&A transactions, (iii) legal restrictions and ambiguity, (iv) cultural differences, and (v) threats to employee retention success.

2.7.4 Internal measures designed for key employee retention

This dimension is influenced by the following factors: (i) Creation of personal perspectives, (ii) crafting of appropriate implementation measures, (iii) reduced workload, (iv) speedy integration, (v) incentive pays, (vi) limitations of incentive pays and money as "quick fix", (vii) the right to speak up, (viii) the creation of trust, (ix) sensemaking, (x) communication, (xi) handling of emotions, (xii) the role of empathy, (xiii) frequency of communication, and (xiv) leadership to promote change and cultural integration.

2.7.5 Key employee identification

The literature review has, further, revealed that top level executives are seen as key employees.

2.8 Development and importance of the research question

The review of the literature has revealed that M&A transactions have a great economic importance. It has further shown that many M&A transactions fail to achieve their economic goals and that the human factor is one of the most important factors contributing to M&A transaction success or failure, respectively. Among the human factors, key employee retention and key employee departure, respectively, are important. For managers it is, therefore, important to understand what factors influence key employee retention and departure in the context of M&A situations and what they can do to ensure or increase key employee retention success in the context of M&A transactions.

The results of the literature review, thus, confirm that managers will have to understand why key employees may decide to leave – or to stay – when an M&A transaction takes place. The critical evaluation of the literature, in other words, allows to develop, and to confirm relevance of, the *main research question* presented in chapter 1.3: What factors influence key employees in their decision to stay with the employer or to depart when an M&A transaction occurs?

The critical evaluation of the literature further reveals that the variable of key employee retention or employee loyalty, respectively, is influenced by a number of dependent variables, such as importance of key employees for M&A transaction success, perception of major changes by employees, external and internal factors influencing employee loyalty as well as key employee identification. The literature review has shown that all these variables may affect key employee retention success and that managers must understand these factors and their interdependence. The literature review has, thus, confirmed relevance of the *critical sub-questions* formulated above: To what extent are key employees relevant for success of a mergers and acquisition transaction? How do employees perceive major change situations resulting from a merger and acquisition transaction? How do external factors influence key employee retention or departure, respectively? How do internal factors influence key employee retention or departure, respectively? How can leaders identify key employees? What can leaders do to retain key employees in M&A transactions?

2.9   Fit into previously published work

The foregoing review of the literature shows that effects of M & A transactions and factors influencing employee retention in the context of M & A transactions have been investigated from various angles. Those writers who have studied employee turnover in the context of M & A have primarily focused on specific aspects for key employee departure as well as on the potential (negative) effects that key employee departure may cause. Further, published literature that discusses measures to keep employee retention rate low discusses this issue from a more general perspective and not in specific relation to change situations caused through M & A transactions. Existing literature does, however, not comprehensively discuss factors influencing employee retention under the specific circumstances that M & A transactions create and how employee retention can be maximized in the context of such M & A transactions. This is a gap that the present paper intends to fill.

2.10   The conceptual research model

2.10.1 Theory building

After critically evaluating the literature and assessing the findings of previous research a theoretical research model or framework can be developed. In developing the theory underlying the present work the author will, further, consider his own experiences in M & A transactions as well as factors and interrelations between these factors that the author would expect to be relevant in the present context. It is generally acknowledged that theory should be developed by "combining observations from previous literature, common sense, and experience" (Eisenhardt, 2002, p. 5).

The factor or variable of primary interest in the present work is key employee retention, i. e. organizational loyalty of key employees. In terms of crafting the theoretical framework key employee retention or organizational loyalty is the dependent variable (Sekaran, 2003, p. 88). This variable is (positively or negatively) influenced by a number of factors or dependent variables. In other words, an independent variable "influences the dependent variable in either a positive or negative way" (Sekaran, 2003, p. 89). The dependent variables or influence factors have been identified in sections 2.2 through 2.6 above and summarized in chapter 2.7. As there is a considerably high number of independent variables that influence key employee retention, they have been allocated to five different categories or

concepts that are relevant in the context of organizational loyalty. Through identifying the independent variable and the dependent variables as well as categorizing the latter the basis has been laid for developing the theoretical framework.

The theory or theoretical framework is the "logically developed, described, and elaborated network of associations among the variables deemed relevant to the problem situation" which may be identified through the literature survey as well as experience and intuition (Sekaran, 2003, p. 97). On that basis the theoretical framework underlying the present work can be described as follows:

The results of the critical evaluation of the literature have revealed a number of dependent variables that may affect key employee retention. The author has defined five different categories or dimensions to which any of the dependent variables can be allocated. The first dimension is the understanding of the importance of the human factor for M&A success. The second dimension refers to how employees perceive large-scale changes that result from the implementation of M&A transactions. The third dimension comprises external factors that may influence the preparation and implementation of M&A transactions. The fourth dimension covers internal measures that are designed with a particular view of key employee retention. The fifth dimension, finally, refers to the question of identifying those employees who are key and need to be retained.

2.10.2 The conceptual research framework

Based on the critical evaluation of the literature and his own experience the author would expect the following interrelations of these five dimensions:

First, it may be expected that there is a two-way relationship between the importance of the human factor for M&A success and the identification of key employees. As key employee loyalty can positively influence the outcome of the entire M&A transaction it is important that the real key people will be identified. On the other hand, the transaction goals will provide insight to the question of what types of people will be required and will, thus, positively influence key employee identification.

Second, it is theorized that there is a one-way relationship between external factors and perception of major changes by key employees, and that ex-

ternal factors that influence the preparation and implementation of M & A transactions will influence perception of the transaction by the employees. On the other hand, perception of major changes by employees will not affect the external factors.

Third, it is expected that there is an interrelation between perception of changes by employees and the internal measures that are designed for key employee retention. This is expected to be a two-way relationship as both dimensions can influence each other.

Fourth, it is theorized that in respect of the external factors and key employee identification a one-way relationship exists. External factors and restrictions are expected to influence key employee identification. On the other hand, key employee identification will not influence the external factors.

Fifth, it is expected that there is a one-way relationship between the internal measures and key employee identification. Efficient internal processes may increase success of key employee identification, while it is not expected that key employee identification will influence the internal measures.

The conceptual framework can be shown in the following schematic diagram:

Figure 2.1: The Conceptual Research Model

A — Importance of the Human Factor for M&A Success

- A.1 Definition of M&A
- A.2 Economic Importance of M&A
- A.3 High Failures Rates in M&A
- A.4 Key Function of Human Factor in M&A
- A.5 Employee Retention as Key Human Factor for M&A Success
- A.6 Transaction Goals
- A.7 Risk of Underestimation Importance of Key Employee Retention
- A.8 M&A Success Measurement
- A.9 Employee Retention as M&A Success Measure
- A.10 Measurement of Retention Success

B — Perception of Major Changes by Employees

- B.1 M&A Transactions are Major Change Situations
- B.2 Fear, Distrust, Other Negative Emotions
- B.3 Resistance Among the Target Workforce
- B.4 Commitment / Positive Perception Among Target Workforce
- B.5 Perceived Ease of Movement

C — External Factors Influencing M&A Preparation and Implementation

- C.1 Legal Restrictions to M&A Processes
- C.2 Lifecycles of M&A Transactions
- C.3 Legal Restrictions and Ambiguity
- C.4 Cultural Differences
- C.5 Threats to Retention Success

D — Internal Measures Designed for Key Employee Retention

D.1 Process Related Measures

- D.1.1 Creation / Provision of Personal Perspectives
- D.1.2 Implementation Measures
- D.1.3 Reduction of Workload
- D.1.4 Speedy Integration

D.2 Employee Related Measures

- D.2.1 Incentive Pays
- D.2.2 Limitations of Incentives / Money as Quick Fix
- D.2.3 The Right to Speak up
- D.2.4 Creation of Trust
- D.2.5 Sensemaking
- D.2.6 Communication
- D.2.7 Handling of Emotions
- D.2.8 Frequent and Open Communication
- D.2.9 Use of Empathy
- D.2.10 Cultural Integration

E — Key Employee Identification

- E.1 Key Employees Are Top Level People

Key Employee Retention

2.11   Summary

In this chapter two the theoretical background for the research has been provided. On the basis of the literature reviewed and the author's experience and expectations a conceptual research model of factors influencing key employee retention has been developed.

In a next step, primary data shall be analyzed with the aim of assessing whether and to what extent the theoretical model will be proven. To this end qualitative data has been gathered by means of one-on-one interviews as will be explained in chapter 3. After careful evaluation and analysis of the data collected a validated research model of factors influencing key employee retention will be developed in chapter 4.

Chapter Three –
Research Design and Methodology

3.1 Introduction

In the preceding chapter the author has presented the results of the review of the existing literature dealing with employee retention and issues related to M & A transactions. In addition, on the basis of the critical evaluation of the literature a conceptual research model has been developed. In a next step, the primary data based on real-life experiences that has been collected shall be presented.

In particular, in this chapter the author will describe and present (i) the methodology used for gathering real-life data, (ii) the research design, i. e. how the research has been conducted, (iii) the methods chosen for analyzing the data, (iv) how reliability and validity have been managed and, finally, (v) a brief outline of the methodological weaknesses and how they have been dealt with.

3.2 Methodology

The present work is about finding out "how people react, work, live and manage their daily lives" (White, 2000, p. 28) during M & A transactions. That is why the author has decided to apply qualitative research techniques using a non-numerical, verbal approach where the results will be descriptive. This approach has shown to be appropriate as every M & A transaction has its own characteristics; different organizations are concerned that are led by and employ different individuals that all have distinct and unique skills, abilities, traits and expertise. The author has been looking for and has actually obtained in-depth information relating to key employee retention in M & A transactions that is based on practical experience of the respondents in different real-life settings.

3.3 Research design

3.3.1 Preparation

In-depth interviews have been used to do the research. The interviews have been individual and structured. The author has used the same list of predetermined questions for each interview. The questions have been asked to and responded by respondents personally (Sekaran, 2003, p. 227).

The author has selected 12 respondents who are decision makers in different organizations in the services industry and technology sector, both within and outside Switzerland. This selection has been made as know-how, personal experience, personal relationships and, thus, employee retention may be expected to play an important role for the success of such organizations, in particular in the context of M&A transactions. Since many services and technology industries and businesses have become international, if not global, the author has elected to focus not only on organizations that have their operations in Switzerland, but also on organizations that are operating outside Switzerland and/or on an international basis. The respondents have been selected on the basis that they were involved several times and were holding relevant managerial roles in M&A transactions; they played a decisive role in such transactions and were either acting for a directly concerned party (such as the seller, buyer or target) and/or as external advisors (such as investment bankers or business consultants). The author has selected the respondents on the basis that he had business contacts to the organizations they were working for and as he knew and/or had been made aware that the participants had gained in-depth experience in M&A transactions. The interviews proved that all respondents have actually been in a position to provide valuable primary data on the subject matter.

As mentioned above, the author has asked the same set of questions to all respondents. The questionnaire provided some closed questions which the respondents could either answer with "yes" or "no" or with other clear attributes (such as questions about success of the transaction and about demographics/personal background). However, most of the questions have been open such as to allow the respondents to report about their observations and feelings in their own words. Different types of questions have been asked, including information about background, behavior and opinions as suggested by White (2000) for qualitative research (White, 2000, p. 31).

The interview questions have been designed in a way that practical, in-depth information about factors affecting key employee retention could be gathered which would allow to prove or disprove the conceptual model developed based on the critical evaluation of the literature and to answer the research questions.

3.3.2 Conduct of the interviews

The author has conducted all interviews in one-on-one sessions, either by meeting the respondents in person or talking to them over the phone. At the beginning of the interviews confidentiality issues have been discussed and most respondents have expressed their wish that their organization and their personal identities would be kept confidential. Most of the interviews lasted for about 60 to 90 minutes. The author has taken notes during the interviews and has transformed such notes into detailed minutes after the interviews. Given that the author had worked in the past as court clerk and had been, in such capacity, also responsible for taking minutes of court hearings he has valuable practical experience for this type of work. For this reason as well as in order to avoid any bias no tape recordings have been taken. It is acknowledged that tape recordings may bias the respondents' answers as they know that their voices are being recorded and they may fear that "their anonymity is not preserved in full" (Sekaran, 2003, p. 231). The author has asked the questions in a neutral manner so as to further reduce risk of bias. In particular, he has refrained from asking "loaded" questions that would contain the author's own views and/or inappropriate suggestions (Sekaran, 2003, p. 230).

The author has conducted the interviews during a period from early February 2009 until mid May 2009. The interview dates had to be spread over more than three and a half months due to the heavy workload of the interviewees and due to their difficulties to make themselves available for the interviews.

3.4 Method of data analysis

Data analysis is a key task in every qualitative research exercise, but there is no standard format for such analysis (Eisenhardt, 2002, p. 17). Data analysis methods need, thus, be chosen in the light of the particularities of the relevant research. Data analysis in this paper has started with carefully reading through all questionnaire responses and noting any ideas that may have emerged from or have been contained in the responses. In doing so, all responses have been read through several times and the ideas have been given a certain code. To the extent an idea could be allocated to the variables identified in the conceptual research model, the same codes have been used for any such idea. If any idea could not be allocated to any other dimensions or variables identified in the conceptual research model

a new code has been created for each such new variable (White, 2000, p. 108). When writing-up the ideas and allocating them to certain dimensions or variables the author has also been inspired by certain concepts of the Interpretative Phenomenological Analysis (IPA) approach (Langridge, 2007; Eatough & Smith, 2006). When preparing the writing-up of the ideas, the author has added a left-hand as well as a right-hand column to the questionnaire responses. While re-reading the responses, ideas and comments have first been noted in the left-hand columns. In a next step, when going through the responses and the ideas contained in the left-hand columns again, the author has tested whether certain dimensions or variables would emerge and has, in the affirmative, allocated the ideas to a specific variable or dimension. To this end, the name and/or code of the relevant variable has been noted in the right-hand columns (Langridge, 2007, p. 111). The author has analyzed all other interviews in the same way. When analyzing the interviews the author has paid particular attention to not mix the participants' responses and the author's own interpretations (Eatough & Smith, 2006, p. 487).

In a third step, the themes or variables that had been identified have been noted separately (Langridge, 2007, p. 111) and in a fourth step the author has produced a table which shows each variable in a coherent order (Langridge, 2007, p. 111).

The above steps have been repeated for all questionnaires, and on that basis the validated research model (*Figure 4.2* below) could be developed. As both, the conceptual research model (shown in *Figure 2.1*) and the validated research model (shown in *Figure 4.2*) have followed the same structure and have used the same terminology in respect of the relevant dimensions and variables, they have allowed for comparison between the two models and to clearly identify similarities and/or gaps between the literature review results and the interview findings.

In order to provide a close context between the author's write up and the participants' responses the presentation of the results in the following chapters will be differentiating between repeating the participants' responses and interpretation by the author (Eatough & Smith, 2006, p. 488).

3.5 Validity

In general terms, validity means that the research design fully addresses the research questions and objectives that the author wishes to achieve (White, 2000, p. 25). Based on the results of the critical evaluation of the literature it may be said that the relevant factors of key employee retention have been sufficiently covered in the research. Further, the participants' feedback confirmed that the questionnaire covered all relevant aspects of key employee retention in an M & A context so that it may be concluded that the research design really addresses the research questions and the objectives of the present work.

More specifically, validity is an essential topic for every qualitative research project, although we may usually not expect to find true conclusions in the sense that there is always only one valid answer to a specific question: "Validity is not a commodity that can be purchased with techniques … Rather, validity is like integrity, character, and quality, to be assessed relative to purposes and circumstances" (Brinberg & McGrath, 1985 cited in Maxwell, 2002, p. 39). When doing qualitative research the researcher should be aiming at analyzing and considering the particularities of each setting investigated and try to understand why what happened under those conditions; in light of the importance of the individual settings it is, thus, suggested that "understanding is a more fundamental concept for qualitative research than validity" (Maxwell, 2002, p. 39) and that, because validity is relative to purposes and circumstances, "data in themselves cannot be valid or invalid; what is at issue are the inferences drawn from them" (Hammersley & Atkinson, 1983 cited in Maxwell, 2002, p. 42).

Against this background the author has addressed the issue of validity by considering three different concepts as suggested by Maxwell (2002). First, validity has been addressed as a matter of the so-called *descriptive validity*. Descriptive validity means that what the researcher reports about a respondent's statements is correct and accurately reflects what has been said (Maxwell, 2002, p. 45). Descriptive validity is, in other words, about ensuring that the respondent's feedback is accurately reported; it is not about interpreting the feedback or generalizing the findings. In order to ensure descriptive validity the author has taken written notes during the interview sessions and has produced minutes about each interview that he had conducted (Sekaran, 2003, p. 231).

Another theme of validity is *interpretative validity* which means that the participants' accounts shall provide what they have meant and shall be "grounded in the language of the people studied and rely as much as possible on their own words and concepts"; interpretative validity is, thus, "inherently a matter of inferences from the words … of the participants" and are never a matter of direct access, but rather a matter of the construction by the researcher on the basis of the participants' responses (Maxwell, 2002, p. 49). Any such interpretations of the participants' responses have been included into the left-hand columns of the questionnaire results table as described in the data analysis chapter above.

Thirdly, validity is a matter of *theoretical validity* (Maxwell, 2002, p. 50). Theoretical validity suggests that the accounts of a participant function "as an explanation, as well as a description or interpretation, of the phenomena" and may be used to explain a theory of some phenomenon (Maxwell, 2002, p. 51). The author has addressed the matter of theoretical validity by construing the respondents' answers on the basis of the contextual framework of each other respondent and by then referring the answers to certain variables.

3.6   Reliability

According to White (2000), reliability "is about consistency and research, and whether another researcher could use your design and obtain similar findings", which will however not mean that their interpretation and conclusions must be the same (White, 2000, p. 25). Maxwell (2002) suggests that reliability is as a particular threat to descriptive validity rather than a distinct issue, and reliability may be achieved by accurate recording (Maxwell, 2002, p. 48). And Sekaran (2003) suggests that reliability is a matter of consistency and stability and indicates the extent to which the research is without bias (Sekaran, 2003, p. 203).

The results of the interviews show that the questions raised have been answered and appropriately cover the issues of key employee retention in M & A transactions. The questions are appropriate to prove and disprove what has been said in the literature so far in relation to the subject matter. Further, the interviewees have been carefully selected from different services and technology organizations in Western countries. This is appropriate given that the services and technology industries act internationally. All respondents have vast experience in and in-depth knowledge of M & A

transactions implementation and employee retention issues. The questions have been raised in an unbiased way and the answers have been carefully noted. For these reasons, the research could be reproduced by any other researcher under a similar methodology and is, thus, considered reliable.

3.7 Methodological weaknesses

There are some weaknesses in the methodology of the present research. First, certain limitations may exist with regard to generalization of the research results. The respondents participating in the study is a limited number of twelve people who provided their own, subjective views on the subject matters. That is why one must be cautious in generalizing the results, particularly with respect to other businesses than those covered in this study and to other parts of the world where different cultures may exist. Such limitations or uncertainties are, however, in line with what is being discussed in the literature. There once can find differing views as to whether or not qualitative research will allow for generalization, specifically generalization of the results to other communities, groups or institutions than those that formed the subject of the studies (Maxwell, 2002, pp. 53–54). For this reason, some qualitative researchers even entirely reject generalization as a goal of qualitative research: "The interpretivist rejects generalization as a goal … For the interpretivist every instance of social interaction … represents a slice from the life world that is proper subject matter for interpretive inquiry … Every topic … must be seen as carrying its own logic, sense of order, structure, and meaning" (Denzin, 1983 cited in Schofield, 2002, p. 173). Other writers, however, suggest that generalization is possible also in qualitative research situations, particularly if generalization is "thought of as a matter of the 'fit' between the situation studied and others to which one might be interested in applying the concepts and conclusions of that study" (Schofield, 2002, p. 198).

Another limitation results from the topic chosen. The interviews have shown that M & A success rates and employee retention issues are highly sensitive and confidential matters and people are generally very cautious when they talk about such transactions and their results.

Finally, it must be noted that the research has been made on the basis of a top-down approach in the sense that the author has talked to managers/ decision makers rather than employees concerned. It has not been possible to talk to employees for reasons of confidentiality.

Despite these weaknesses, the research results are considered valid and reliable as various measures have been applied to ensure validity and reliability. First, the questions that have been investigated relate to a specific and relatively narrow topic (key employee retention in M & A transactions) which has some basic characteristics that are inherent to every transaction of this kind. The questions asked to the participants proved to comprehensively cover the topic and the answers provided have been, to a large extent, consistent. The answers have been carefully noted and analyzed to ensure validity of the data. Moreover, the results do, to a large extent, confirm the conceptual research model developed on the basis of a critical evaluation of a considerable number of contemporary academic papers about similar or comparable topics. Second, the author has agreed with the participants that confidentiality would be maintained. This allowed the participants to speak freely about the transactions in which they had been involved, in particular about the results achieved and difficulties encountered. This notwithstanding, confidentiality reasons have prevented the author from interviewing employees, so that the research has focused on the views of management. Talking to employees and considering their views is something that may be the subject of future research. However, in light of the measures described above, not talking to employees is not considered to put at stake validity and reliability of the research results presented in this study.

3.8   Summary

In this chapter the author has presented the research design, the data analysis methods, the tools used to ensure validity and reliability as well as methodological weaknesses of the research and how these have been mitigated. Qualitative methodology has been used for the research. In-depth, individual interviews have been conducted in one-on-one sessions either in person or over the phone. The author has carefully noted the participants' responses in order to maintain their richness. The data analysis method applied has enabled the author to identify various dimensions or variables forming the basis for developing a validated model. The methods applied have further allowed to ensure validity of the results and to appropriately address and mitigate the methodological weaknesses. The following chapter four will present and discuss the results of the research.

Chapter Four – Results and Discussion

4.1 Introduction

This chapter four presents the primary data that the author has collected through the interviews and that he has analyzed as described in chapter three. It further provides the discussion of the results. The results will be presented following the sequence of the literature review in chapter two and discuss the results in relation to (i) the importance of the human factor for M&A success, (ii) perception of major changes by employees, (iii) external factors influencing M&A preparation and implementation, (iv) internal measures for employee retention and (v) the issue of key employee identification. At the end of this chapter four the validated research model will be developed and the differences to the conceptual research model will be presented.

4.2 Importance of the human factor for M&A success

In respect of importance of the human factor for M&A success the research results are widely in line with what is discussed in the literature. The results, however, differ from the literature with respect to two dimensions: (i) high failure rates in M&A, and (ii) the risk of underestimation of the importance of key employee retention. Apart from these two discrepancies the research results largely confirm what is said in the existing literature in respect of the importance of the human factor for M&A success. This will be discussed in more detail below:

4.2.1 Definition of mergers and acquisition transactions

All respondents have confirmed that M&A transactions include *acquisitions* (which can be described as the acquiring of the sole control over all or a part of an undertaking or organization) as well as *mergers* (where an organization is absorbed by another organization or where two or more organizations combine to become a single, newly created organization). In addition, some respondents have mentioned specific transactions that they also deem as M&A transactions, i.e. privatisations of formerly public organizations and the forming of joint venture companies. In general, however, the research results clearly confirm that M&A transactions usually comprise *acquisitions* in the sense of the purchase by one company of the shares of another company or of the purchase by one company of all or part of the assets of another company, as well as *mergers* in the sense of

combinations of two or more formerly independent organizations (Van Bael & Bellis, 2005, p. 747/748; Bauen & Bernet, 2007, p. 284).

4.2.2   Economic importance of M & A transactions
The research results confirm economic importance of M & A transactions. While only four respondents have mentioned to having directly been involved in large scale transactions in the range of several hundreds millions or some billions of US Dollars, the other respondents have been involved in smaller-scale transactions, but have not denied economic importance of M & A transactions. The results, thus, confirm that M & A transactions play an important economic role as suggested by various academic writer such as Kiessling & Harvey (2006) and Appelbaum et al. (2007b).

4.2.3   High failure rates in M & A
Only one respondent clearly indicated that the M & A transactions in which he was involved have failed to reach their intended goals. Four other respondents have reported that the transactions have partly failed, while seven respondents suggested that in their cases the transactions were successful. Most respondents have, thus, come to the conclusion that the transactions in which they were involved have not failed.

Interestingly, these results are contradicting the literature where it is suggested that large numbers of M & A transactions fail. According to Amiot, Terry & Callan (2007), the failure rate is between 60 – 70 % (Amiot, Terry & Callan, 2007, p. 557), while according to Schraeder & Self (2003) between 55 – 70 % of M & A transactions fail (Schraeder & Self, 2003, p. 511). Bryson (2003) estimates the failure rate to be between 50 – 80 % (Bryson, 2003, p. 14). This discrepancy may be explained by the fact that it is usually rather difficult to actually measure success of M & A transactions and that, thus, there may be differing views as to whether or not a particular transaction has really been a success. Further, the author takes the view that there is a certain likelihood that people that have been directly involved in M & A transactions may assess the outcome in a more subjective way and may tend to consider the results more positively than they actually are.

4.2.4 Key function of the human factor in M&A transactions and employee retention as key human factor for M&A transaction success

The research results show large support for the notion that the human factor plays a key function in M&A transactions as well as that employee retention is one of the most important human factors that may contribute to M&A transaction success as suggested in the literature. While Kiessling&Harvey, for instance, contend that the human factor is key for ensuring successful M&A implementation (Kiessling&Harvey, 2006, p.1307), Crouch&Wirth (1989) point out that retention or loyalty of key employees will positively influence success of an M&A transaction (Crouch&Wirth, 1989, p.4).

10 out of 12 respondents have expressly supported the importance of the human element as general success factor in M&A transactions, while 11 of 12 have expressly suggested that employee retention plays an important role for transaction success. Respondent D.G., for instance, has referred to the consulting business saying that the "consulting business is a people business" and that, therefore, it is a primary topic to retain the key people post-closing. Respondent S.P. has concluded that given the importance of key employees for post-merger success organizations need to ensure that they are and remain "locked-in".

4.2.5 Transaction goals

In the literature various transaction goals are discussed and Buono (2003), for instance, makes a distinction between hard synergies and soft synergies and contends that organizations should focus on both types of transactional goals (Buono, 2003, p.94). The research results confirm that goals of M&A transactions are not only hard in the sense that certain revenue and/or saving goals should be achieved, but rather that also soft factors should count, such as the transfer of know-how. The research results, however, go further in that 10 respondents have pointed out that there is a direct link between the strategic goals of an M&A transaction and the need for key employee retention. Strategic goals that require post-closing key employee retention include, according to the respondents, (i) the buying-in of know-how and (ii) the buying-in of people with the aim of ensuring that the acquiring organization does not need to make the relevant developments by itself. According to these respondents, where such transaction goals are

at stake, there is a need to keep key employees post-closing. The results, thus, confirm that transaction goals may directly trigger the need for key employee retention.

4.2.6 *Risk of underestimating importance of key employee retention*

According to Buono (2003), in many cases organizations fail to retain key people because they too strongly focus on short term success and, thus, underestimate the human factor (Buono, 2003, p. 93). Interestingly, none of the respondents has concluded that there may be a risk of underestimating the need for retaining key employees in M&A transactions, and most respondents have confirmed that key employee retention has been a particular topic in the transactions in which they were involved. The responses obtained reveal, in other words, that key employee retention is seen as an important factor for post-closing success.

However, the responses obtained also allow to conclude that despite the fact that key employee retention is seen as important for M&A transaction success, organizations may tend to not put enough emphasis on implementing effective and efficient employee retention measures. It may further be concluded that key employee retention may be less successful than desired not because of underestimating the importance of key employee retention for M&A success, but rather because of not efficiently crafting and implementing concrete measures that may improve post-closing key employee loyalty.

4.2.7 *M&A success measurement*

The results indicate that organizations do actually measure success of M&A transactions. 11 respondents have stated that they would measure transaction success, while only one respondent has suggested that it is practically impossible to reliably assess success of an M&A transaction. However, there was little agreement as to how success can be measured. This is in line with the findings of Zollo & Meier (2008) who contend that "there is little or no agreement … on how to measure acquisition performance" (Zollo & Meier, 2008, p. 55).

Some respondents have put more emphasis on hard factors, such as comparing the actual post-closing financial results after a certain period of time with the forecast figures provided in the transaction business plan. Respondent G. P. has provided the most straightforward measure. As his

organization is a private equity company that buys companies with the aim of re-selling them after a certain period of time, their measure is a simple subtraction of the purchase price (plus costs incurred) from the sales price. Another group of respondents has stressed that soft factors are relevant to assess M&A transaction success, such as increased brand recognition among the (potential) customers, increased applications by job applicants as well as increased market shares.

In sum, the results confirm that there is little common understanding as to how to measure M&A success and that different criteria may be considered depending on the particular circumstances.

4.2.8 Employee retention as M&A success measure

Some of the respondents have suggested that key employee retention is itself a measure for M&A transaction success (or failure). One respondent has explained that in a specific transaction retention of employees had been measured. In that particular case more than 50% of the key people had left after a certain period of time post-closing, and this fact has been considered as proof for transaction failure. This is in line with the findings of Zollo & Meier (2008) who suggest that key employee retention may be a determinant for transaction success measurement (Zollo & Meier, 2008, p. 56 and p. 64) and those of Galpin & Herndon (2008) for whom key employee departure is a clear symptom for weak M&A implementation (Galpin & Herndon, 2008, p. 8). The research results, thus, imply that key employee retention may be seen as an indicator for successful M&A integration.

4.2.9 Measurement of retention success

Although most respondents have confirmed that they had been successful in retaining key employees, respondents have not provided much information about how organizations measure employee retention success. Only respondents A. L. and J. J. have pointed out that in the M&A transaction in which they were involved the acquirer has actually measured retention success. Respondent J. J. has further pointed out that in their case the success rate was exceeding 98%.

The results are in line with the results of the literature evaluation where not much can be found about how to measure retention success. This leads to the interesting conclusion that despite the fact that organizations do con-

sider employee retention as an important factor and may even implement various measures that shall ensure employee loyalty they usually do not really measure how successful they have been in retaining the key employees. In the author's view this is clearly a topic which would deserve much more attention. If organizations find out how successful (or not) they have been in retaining key employees they can draw important conclusions for future transactions and can improve their measures if they have been weak in retaining employees in the previous transaction.

4.3 Perception of major changes by employees

Also in respect of perception of major changes by employees there are large similarities between what is being said in the literature and the results of the research. There is, however, one very important difference: the importance of the commitment of the workforce of the acquiring entity. In respect of the other factors, however, the conceptual and the validated research model are congruent as will be shown below:

4.3.1 M & A transactions are major change situations

The conceptual model suggests that M & A transactions cause major organizational change situations. This is supported by the literature where, for instance, Cornett-DeVito & Friedman (1995) suggest that in case of M & A transactions major organizational changes occur (Cornett-DeVito & Friedman, 1995, p. 46) and where Nikandrou, Papalexandris & Bourantas (2000) suggest that M & A transactions are among the "most traumatic types of organizational change" (Nikandrou, Papalexandris & Bourantas, 2000, p. 335).

None of the respondents has expressly disproved this notion, although only one respondent has expressly referred to this concept and mentioned that such major changes can cause concerns. The results, thus, confirm that M & A transactions can entail major organizational change situations.

4.3.2 Fear, distrust and other negative emotions

A vast majority of the respondents has suggested that M & A transactions will create fears, distrust and other negative emotions among the employees of the target organization. The negative reactions or emotions that have been mentioned include fear from loss of responsibilities and loss of pride due to such loss of responsibilities. Respondent A. L., for instance, has stressed that such change situations are seen as "ego things", meaning that

the top executives concerned may loose responsibilities and importance and, thus, may feel debased.

The results confirm the results of the literature review. According to academic writers fear, distrust and other negative emotions often result following the announcement of an M&A transaction. According to Schraeder & Self (2003), employees are afraid of layoffs, loss of identity and reputation (Schrader & Self, 2003, p. 514) which is, in essence, what respondent A. L. has described as "ego thing". A number of other academic writers have investigated what kind of negative emotions M&A transactions can cause, such as Seo & Hill (2005), Somers & Bird (1990) and Hoare & Cartwright (1997). The research results, thus, confirm the above findings and, further, indicate a high awareness among managers of this issue.

4.3.3 Resistance among the target workforce

Respondents have largely confirmed the notion that M&A transactions may create resistance among the members of the target firm. This has been considered as a general and serious issue in M&A transactions. Also in this respect previous literature has been confirmed where it is suggested that resistance against the change will be mostly present among the acquired employees (Somers & Bird, 1990, p. 38 and p. 41). Resistance to change among the target workforce is, thus, a serious issue that must be addressed in order to ensure M&A success as well as post-closing key employee loyalty.

4.3.4 Commitment / Positive perception among target workforce

Respondents, however, have not only pointed out that acquired employees may react with fear and distrust. They have also suggested that based on the particular circumstances target employees may also recognize new opportunities within the new organization and, thus, would welcome the change and be committed to the transaction goals. In other words, the results suggest that resistance against the change may be avoided or overcome if the acquirer is able to demonstrate that the employees may have new, challenging opportunities within the new group. The research confirms the results of the literature review. Academic writers have suggested that acquired employees may be committed to the transaction (and even more committed than the acquiring employees) if they see attractive new personal perspectives (Panchal & Cartwright, 2001, p. 428). Showing attrac-

tive new personal perspectives is, thus, a powerful variable that may positively influence employee loyalty.

4.3.5 Perceived ease of movement / Economic climate

According to Kim & Lee (2007) perceived ease of movement is a factor that may negatively affect key employee loyalty (Kim & Lee, 2007, p. 230). Interestingly, only two respondents have put emphasis on the concept of ease of movement, and both respondents have considered this concept from the perspective of the current economic climate. According to these respondents, if the climate is bad, as it is in many sectors and many countries of the world in the year 2009, people will be much less inclined to feel that they could easily change jobs and leave the company, even if a major change is announced and causes fear and other negative emotions. It is, thus, appropriate to consider the economic climate as an additional external factor that may influence key employees' decision to stay or to depart. Although the respondents have not put much emphasis on the concept of perceived ease of movement, the author considers this to be an important factor that can negatively influence key employee loyalty. It seems to be logical that if an employee has serious concerns about his / her own future because of an M & A transaction he / she will be more tempted to depart if he / she believes to easily find an attractive alternative employer. If the economic situation is poor employees may usually see much less attractive alternatives.

4.3.6 Commitment among own workforce

While in the literature emphasis is put on how the workforce of the target organization perceives and reacts in major change situations, respondents have pointed out that it is equally important to focus on the own employees. The research results reveal, in other words, that the employees of the own, acquiring organization may be equally afraid of the uncertainties that an M & A transaction may create. Respondent J.J,. for instance, has suggested that in M & A situations management will have much less time to take care of the own workforce and that, therefore, these employees may feel neglected and afraid about what the future would bring to their own jobs. According to him this is one of the "mostly overlooked issue" in M & A transactions. Focusing on the own workforce is, thus, an additional factor that may positively influence retention of the own key people and,

thus, M & A transaction success. Focus on the own workforce is, thus, an additional variable that can positively influence employee retention.

4.4 External factors influencing M & A preparation and implementation

In respect of external factors that may influence M & A preparation and implementation the research results and what can be concluded from the literature are widely similar too. The research has, however, revealed that there are two additional important external factors that may affect M & A preparation and implementation and, thus, employee retention: the economic climate and differences between employment terms and payment schemes of the acquiring and the acquired entity. Apart from these two variables the research results confirm what is being said in the literature and provided in the conceptual model.

4.4.1 Legal restrictions to M & A processes

The conceptual model suggests that M & A transactions are subject to various legal restrictions, particularly for confidentiality reasons and under an antitrust as well as stock exchange law perspective (Wish, 2001, p. 766; Tschäni, 2003, p. 46; Bauen & Bernet, 2007, p. 324). The primary data largely confirms these results. Only one respondent has pointed out that such legal restrictions have not been applicable in the cases where he was involved. This was, however, due to the specifics of the particular transaction (small scale transaction where negotiations took place with the owners of the organization that needed to be retained post-closing) and cannot be seen as a general challenge of this notion. All other respondents have expressly confirmed that preparation and implementation of the transactions were subject to legal restrictions and that such restrictions may have negatively influenced the organizations' abilities to take care of the employee retention matter.

4.4.2 Lifecycles of M & A transactions

All participants have further confirmed that for operational and legal reasons M & A transactions extend over a certain period of time and are handled through various phases. The major phases have been confirmed to be pre-signing, pre-closing and post-closing or integration, respectively.

4.4.3   Legal restrictions and ambiguity

Also in respect of the concept that legal restrictions that apply during pre-closing phases of M & A transactions may create an atmosphere of ambiguity, i. e. that the "rumor mill will swing into full tilt" (Thach & Nyman, 2001, p. 146), the results of the literature review have been confirmed. Respondents have particularly confirmed that employees may be afraid of loosing their positions or of other negative consequences because of the limitations that prevent the parties from openly communicate during the pre-closing phases of the transactions. Ambiguities that may result because of legal restrictions applicable to the pre-closing stages of the transaction are, thus, an important factor that can negatively affect employee loyalty.

4.4.4   Cultural differences

In the literature it is widely acknowledged that culture fit is an important factor for M & A and retention success. According to Appelbaum et al. (2007b) cultural incompatibility may be "the single largest cause" for employee departure and conflicts in M & A transactions (Appelbaum, 2007b, p. 193), and Cusella (2000) contends that in case cultures do not fit the outcomes of the transaction can be seriously harmed (Cusella, 2000, p. 669).

The research results confirm that cultural differences play a role not only in respect of M & A transaction success, in general, but also and in respect of key employee retention success, in particular. Respondent D. G, for instance, has stressed that a (potential) "clash of cultures" must be carefully addressed pre- as well as post-closing, while respondent B. S. has pointed out that a "good culture fit" will increase likelihood of retention success. Cultural differences must, thus, be seen as variables that can significantly and negatively affect post-merger employee loyalty.

4.4.5   Threats to retention success

The literature review has revealed that retention success can be harmed if the wrong people remain or people remain that are pursuing own, personal goals instead of taking care of the goals and interests of the organization and its shareholders. According to the findings of Wulf (2004), for instance, there is a real risk that "target CEOs trade power for premium" in order to protect their own personal interests rather than defending the organization's and its shareholders' interests (Wulf, 2004, p. 96). On this basis it has been theorized that, more generally, retention success can be

negatively influenced if external interests, i.e. interests that are not congruent to the target's and/or acquirer's interests, are pursued. While this notion has not been disproved, only two respondents have expressly mentioned that such egoistic external factors may create a threat to retention success. Respondent C.F. who is working for a private bank institution has explained that the phase between signing and closing is particularly critical and that there has usually been a risk that competitors would try to benefit from existing uncertainties and would try to poach the target organization's best employees. Respondent B.P. has pointed out that in such phases of uncertainties key employees may be tempted to try to negotiate better employment terms and may decide to leave if they are not successful. External factors where certain parties pursue own egoistic goals may, thus, have a serious negative influence on post-closing retention.

4.4.6 Economic climate

As has been explained above, two respondents have identified the current economic climate as a specific external factor that may affect employee retention. If the climate is bad employees will be much less inclined to leave the organization even if a major change is announced and causes fear and other negative emotions. On the other hand, if the economic climate is favorable key employees may much faster decide to leave if they do not perceive the transaction and the outcome that may result as attractive. The evaluation of the literature has not identified the economic climate as a separate variable that may positively (or negatively) affect employee loyalty.

Although the research results suggest that key employees may be less inclined to leave under weak economic situations, the author takes the view that managers should not over-estimate this factor in the long-run as it seems obvious that those employees that do not consider the personal perspectives to be attractive will seriously consider to depart as soon as the economic environment starts to improve.

4.4.7 Differences in employment terms

In addition to what is being discussed in the literature and reflected in the conceptual model, a majority of the respondents has suggested that differences in employment terms and, in particular, payment schemes may negatively affect retention success. It has been confirmed that such differences often exist between acquiring and acquired or between merging

organizations. According to respondent J. J., for instance, this is "the single most overlooked issue" and he strongly suggests to explain to the workforce of both organizations that and why such differences exist. He further suggests that organizations should try to eliminate these differences over time, but they must also accept that in certain cases some of these differences will remain. This fact should be openly addressed and explained so that the employees understand and are better prepared to accept it.

The research results, thus, suggest that differences in employment terms and payment schemes may negatively affect employee loyalty and that open communication of such differences and an attempt to eliminate them over time will mitigate their negative affects.

4.5   Internal measures designed for key employee retention

The research has revealed the largest differences to the literature review results and the conceptual research model in respect of the internal measures that are designed with a view of key employee retention and that can influence key employees' decision to stay or to depart.

The respondents have, on the one hand, not confirmed importance of one particular measure (reduction of workload) and have, on the other hand, identified a number of additional internal factors that may influence key employees' decision to stay or to depart. These factors include: (i) early identification of key employees, (ii) use of an employee retention owner, (iii) conduct of retention or HR due diligence, (iv) recognition of employee retention as a specific transaction cost factor, (v) application of the private equity model, (vi) equal treatment of the employees, (vii) being open, (viii) communication with the own employees, (ix) face-to-face communication, (x) focus on own people (xi) linking the purchase price under the transaction agreement to retention success and (xii) imposing of noncompete obligations on key employees. These additional factors can be allocated to the three sub-categories (i) process related internal measures, (ii) employee related internal measures, and (iii) transactional measures. The latter has been developed on the basis of the research results and has not yet been identified in the conceptual model.

A. Internal process related measures

4.5.1   Creation of personal perspectives

The research results clearly confirm the importance of attractive new opportunities within an attractive new environment for employee retention as suggested by various academic writes such as Millward & Kyriakidou (2004) and Stum (2001). All respondents have pointed out that attractive personal perspectives will heavily influence key employees' decision to stay. According to respondent S. P., for instance, "disillusionment" is a major threat if there will be a "shift in job perspectives" that the key employees will not consider "sexy". Under such conditions there is an increased risk that key employees will decide to depart. On the other hand, another respondent has explained that promotions and new job offers will make it attractive to remain and may, thus, increase key employee retention.

4.5.2   Crafting of implementation measures

The primary data further confirms that applying appropriate implementation measures and ensuring smooth integration will increase likelihood of a successful transaction integration and, thus, of employee retention. Seven out of 12 respondents have expressly suggested that smooth integration will increase likelihood of success. The research results, thus, confirm what is said in the literature by Chanmugam et al. (2005) and suggest that efficient M & A implementation has a positive effect on employee loyalty.

4.5.3   Reduction of workload

While Chanmugam et al. (2005) suggest that there is a risk of managers being imposed to too heavy workloads post-closing (Chanmugam et al., 2005, p. 46), none of the respondents has considered that key employees may be exposed to unsustainable workloads due to the implementation of M & A transactions. Although some respondents have confirmed that effective M & A implementation requires that efficient implementation measures are applied and change managers are appointed that are committed to the transaction and to its implementation, respondents have not seen the threat that as a result of the transaction the workload would reach unsupportable levels.

One respondent has pointed out that the new roles which some key people may hold post-closing may cause them to leave as they may consider such new role as too demanding. This is, however, not directly linked to

the workload during M&A implementation, but rather to the longer-term post-closing period.

Nonetheless, it seems to be logical that M&A implementation will create additional workload as employees entrusted with the implementation will usually have to deal with their normal day-to-day activities and, in addition, with transaction implementation. But as respondents have not mentioned workload as a specific issue the author concludes that the issue of workload is recognized in practice and appropriately dealt with.

4.5.4 Speedy integration
Respondents have confirmed that speedy integration is an appropriate measure to reduce concerns among employees and to reduce risk of their departure. The quicker M&A transactions can be implemented the more convenient the concerned employees will feel. The research, thus, confirms the views of Bert, MacDonald&Herd (2003) who suggest that M&A transactions must be implemented quickly (Bert, MacDonald&Herd, 2003, p.42) and the theory that slow integration may entail frustration and cause key people to leave.

4.5.5 Early identification of key employees
A majority of the respondents has stressed that early identification of key employees and, thus, starting to deal with employee retention issues early in the transaction process is important. Respondent B.S., for instance, has confirmed that key employee retention should, and does usually, start early in the process pre-signing. According to the results, key employees are usually first identified by the sellers in the negotiation phase and, in a next step, the acquirer will follow-up on this issue during the pre-signing due diligence exercise. According to respondent D.G., identification of key people must start as early as possible in order to ensure that the required measures can be designed and implemented on time. The research results, thus, reveal that early identification of key employees is a variable that, although not identified in the literature, can positively influence employee loyalty.

4.5.6 Role of the retention owner
Some respondents have suggested that allocating specific responsibilities regarding key employee retention to one (or several) person(s), the so-called employee retention owner(s), would positively affect key employees' per-

ception of the transaction and their decision to stay. This notion has, however, neither been supported by the other respondents, nor is it recognized in the literature. This notwithstanding, the author takes the view that this measure may have a positive affect on key employee loyalty as it is likely that employees will welcome the employers' efforts to make available dedicated persons whose primary function is to focus on the employees affected by the transaction and take care of their concerns and feelings.

4.5.7 Retention / HR due diligence

Respondent D. G. has suggested to carry out a specific retention/HR due diligence in the pre-signing and/or pre-closing phase of the transaction. He holds that key employee retention must start very early in the transaction process and, very importantly, the due diligence report must also provide a section about key employees and HR issues. None of the other respondents has suggested the same concept. In the author's view, however, this may be an excellent tool to ensure that the right people are identified as key and contacted as early as possible in the transactions. Conducting an HR due diligence pre-signing, thus, seems highly recommendable.

4.5.8 Identifying employee retention as a cost factor

Respondents C. F. and G. D. have stressed that employee retention measures are an important cost factor which must be known early in the transaction process and must be reflected in the transaction business plan. Making these costs transparent will not only enable the acquirer to accurately assess the real total transaction costs, but may also lead, if required, to changing and adapting the retention measures that shall be offered to the employees. This variable is not reflected in the conceptual model, but in the author's view the respondents' suggestions make perfectly sense. If retention costs are early identified and budgeted the parties can determine which measures shall and/or can be implemented and what others, even if they could have a positive effect, may not. If this is handled properly, the acquirer will not only be in a better position to assess the real transaction costs, but there will also be no or less frictions post-closing in case problems occur with regard to the financing of the retention schemes.

B. Internal employee related measures

4.5.9 *Incentive pays*

Incentive pays are seen in the literature as appropriate measures to maintain or increase customer loyalty (Sigler, 1999, p. 3). This has been unanimously approved by the respondents. All respondents have pointed out that monetary rewards, such as cash-based bonus payments and/or higher salaries, as well as equity-based reward programs, such as stock option plans, will help to keep key employees on board. Some of the respondents have stressed the importance of locking-in key employees long-term and have, thus, favored equity-based rewards, such as stock options, over short-term cash-bonuses, while others have put more emphasis on cash-based incentives. In any case, importance of incentive pays has been confirmed.

4.5.10 *The private equity model*

The research has revealed importance of a specific factor which is not specifically addressed in the literature. Two respondents have highlighted a specific incentive model which they call the private equity model. Such private equity model is, according to these respondents, particularly relevant in cases where the acquirer is a financial investor and does not intend to become, post-closing, involved in the daily operation of the acquired organization. Instead, the acquirer will install a management team that shall be responsible for running the acquired organization post-closing. To make such structure attractive to the new managers the acquirer will grant them the right to acquire a minority stake in the target. Under such concept the managers will not only feel motivated because they are now also owners of the organization, but they will also see financial benefits in the long run. Should the financial investor decide to exit, the managers will also benefit as the shares of the target will either be sold by means of a trade sale or by listing the shares on the stock exchange by way of an initial public offering (IPO). For respondent G. P. this is the most effective monetary measure to retain key employees. These arguments seem convincing and, thus, the private equity model is a further variable that is to be included into the validated model.

4.5.11 *Equal treatment*

Another factor which is not identified in the conceptual model but has been identified by the respondents is equal treatment. A majority of the

respondents has emphasized that equal treatment among key employees is highly important. It has been confirmed that when two organizations come together significant differences may exist between the employment conditions that are applicable in these organizations. The respondents have suggested that such differences should be eliminated over time, to the largest extent possible, as otherwise frictions may entail employee departure. It has further been said that equal treatment is also necessary in respect of incentive programs that are specifically designed for key employees. Further, respondents have pointed out that it will be equally necessary to ensure that where an organization performs several M & A transactions the retention programs should be comparable. If there are significant differences employees may feel badly treated and leave. In the author's view equal treatment in the sense described in the foregoing is actually a useful tool to avoid frustration and, thus, employee departure.

4.5.12 Limitations to incentives pay / Money as quick fix
Respondents have largely confirmed that incentive pays will not solve everything and there are limitations related to monetary measures. Respondent A. L., for instance, has pointed out that while money plays an important role, it "doesn't do the trick" in the long-run. Respondent D. G. has suggested that money can operate as a "short time helper" to keep people aboard in the short-run, but that other measures will have to be applied to secure long-term retention. This is fully in line with the study results of Hannay & Northam (2000) who contend that money may often be used as a "quick fix" to solve retention issues in the short run, but that in the longer term other factors, such as personal perspectives, are important (Hannay & Northam, 2000, p. 71).

4.5.13 The right to speak up
There has been no disagreement with the notion that the employees should have the right to speak up if M & A transactions occur so that they can openly address their concerns and fears. The research results, thus, confirm what is said in the literature (e. g. Spencer, 1986, p. 498) and provided in the conceptual model.

4.5.14 Creation of trust
Likewise, the respondents have agreed that creating an atmosphere of trust will positively influence key employee retention. Respondent W. S.,

for instance, has suggested that change managers should be transparent and trustworthy, while respondent J.J. has stressed that change managers should build up trust among the target workforce as well as among the own workforce. This is in line with the conceptual model and the views of van Vuuren & Elving (2008) and Nikandrou, Papalexandris & Bourantas (2000).

4.5.15 Sensemaking

The research results and the conceptual model as well as the literature (e.g. van Vuuren & Elving, 2008) are also congruent in respect of importance of sensemaking. All respondents have confirmed that sensemaking is an important tool to gain trust among the affected workforce. There has be an unanimous view that the parties should explain to the affected employees what the change will mean to their work, their job roles, and their status. The better the employees can understand the rationale and effects of the transaction the higher the likelihood that they will stay.

4.5.16 Communication

The respondents have also unanimously confirmed that effective communication is an important tool for implementing M & A transactions and for minimizing the negative impacts on the atmosphere among the affected employees. Effective communication has been seen as a tool that can create positive emotions towards the transaction and positively influence key employee retention. According to respondent J.J., for instance, communication has "top priority" and according to respondent H.J., communication can be used as a tool to reduce negative emotions. These results confirm what is said in the literature, such as by Bert, MacDonald & Herd (2003), who suggest that communication is one of the key drivers for successful implementation of M & A transactions (Bert, MacDonald & Herd, 2003, p. 47).

4.5.17 Being open

Two respondents have suggested a particular measure which is not expressly dealt with in the conceptual model. It can be seen as a specific dimension to effective communication, but shall be discussed as a separate variable. Respondents H.J. and W.S. have explained that it is very important to be open and to openly communicate towards the affected employees. This will include that all information available (including bad news) be com-

municated at once. Such openness will be well taken by the employees affected and may significantly increase credibility even if bad news is communicated.

4.5.18 Communication with own people

Communication with own people is also a factor that is not reflected in the conceptual model but has been expressly identified in the research. According to respondents J. J. and B. S., it is highly important to focus communication not only on the target's employees, but equally on the own employees as they may be exposed to the same negative emotions as the employees of the target organization. While literature seems to primarily focus on the acquired employees the research suggests that organizations will have to put equal emphasis on the own workforce. In the author's view this would be an appropriate measure.

4.5.19 Handling of emotions

Respondents have not disagreed with the concept of handling of emotions as an important factor for employee retention. Two respondents have expressly suggested that emotions should be handled carefully and that M & A integration is more than just an intellectual exercise. The results, thus, confirm the conceptual model and the findings of Thach & Nyman (2001) who suggest that M & A implementation managers should carefully handle the "emotional fallout" caused by M & A announcement and take time to talk with employees also about emotions (Thach & Nyman, 2001, p. 147).

4.5.20 Frequent and open communication

Respondents have largely confirmed that increasing the number of staff meetings and other communication measures will influence employee retention. Respondent B. S., for instance, has suggested that post-closing management should "talk down the transaction at a much greater frequency", and respondent A. L. has pointed out that it is very important to "communicate regularly and in a consistent manner". The research results confirm what is said in the literature, e. g. the findings of Thach & Nyman (2001), who suggest that leaders will have to significantly increase the number of staff meetings to inform the employees about the transaction (Thach & Nyman, 2001, p. 148).

4.5.21 Face-to-face communication

While academic writers largely suggest that efficient communication is key for M & A success (Cornett-DeVito & Friedman, 1995, p. 54; Bert, MacDonald & Herd, 2003, p. 47; Appelbaum et al., 2000, p. 682; and Papadakis, 2005, p. 248), respondents have, more specifically, suggested that face-to-face communication will have the most relevant influence on key employees. Such face-to-face communication includes face-to-face meetings in groups as well as one-on-one sessions. According to respondent H. J., for instance, communication that takes place through various channels, such as town hall meetings and Q&A sessions as well as through face-to-face meetings is very effective. Respondent J. J. has stressed that "cold communication" (i. e. without face-to-face meetings) would be "too risky", particularly "in multinational transactions where language problems can occur". The research results, thus, suggest that M & A managers will have to put specific emphasis on extensive face-to-face communication to convey the relevant messages.

4.5.22 The role of empathy

The respondents have confirmed that being empathic is an important factor in respect of key employee retention. The concept of being empathic is closely linked to the handling of emotions. While the latter is more focused on the employees' side, the notion of being empathic refers to the change managers that are responsible for M & A integration. Respondent C. F. suggests that "soft factors" need to be considered and that this concept is often overlooked, while respondent A. L. nicely describes this concept by saying that managers should "try to win the minds and hearts of the people". This is in line with the literature where Appelbaum et al. (2000) suggest that management will have to be empathic towards the affected employees (Appelbaum et al., 2000, p. 682).

4.5.23 Cultural integration

The majority of the respondents has recognized importance of cultural differences and have emphasized the importance of leadership for effectively handling such cultural differences. Respondent B. S., for instance, has pointed out that it is very important to identify, in the early stages of the transaction, possible cultural differences and to handle them properly as such differences may jeopardize the outcome of the transaction. Respondent D. G. has suggested that in respect of employee loyalty it is

highly important to identify, take care off and effectively manage cultural differences. The results confirm the views of Schraeder, Tears & Jordan, (2005) who suggest that successful implementation will also depend on how successful managers can integrate the different corporate cultures (Schraeder, Tears & Jordan, 2005, p. 497).

4.5.24 *Focus on own employees*
The literature review results do not identify importance of focusing on own employees. The research results, however, reveal that focus on the own workforce is a factor that may significantly influence key employees' reactions. This concept is closely related to the notion that communication should also focus on the own employees (and not only on the target's workforce), but it is wider in scope as it includes further measures, such as the offering of specific incentives and/or job opportunities not only to the acquired, but also to the acquiring employees. Respondent A. L. has explained that there is a tendency in M & A transactions to focus merely on the target's employees and to overlook and neglect those who are considered save and are, thus, expected to remain with the acquirer. This may, however, be dangerous as those who feel neglected or even unequally treated may decide to depart. The same has been confirmed by respondent J.J. who explains that focus must always be on the employees of both sides. In the author's view these arguments are sound and he also contends that it will be equally important for M & A managers to not only focus on the employees of the target, but also on the own people.

C. Transactional measures
The research results reveal that there is a third category of internal factors, i. e. transactional factors, that are relevant in respect of how key employees react in M & A transactions. Such transactional factors are not identified in the conceptual model. The responses obtained from participants reveal, however, that the measures linking purchase price payment to retention success as well as the imposing of non-compete obligations may positively influence employee loyalty:

4.5.25 *Linking purchase price payment to retention success*
A number of respondents has suggested that contractual provisions under the transaction agreement according to which payment of a portion of the purchase price will be deferred and linked to retention success will posi-

tively influence key employee retention. Although such provisions will not contractually bind the key employees, they will motivate the sellers to take care of the target's employees and employee retention. Given that the purchase price will be paid in full only if a certain retention success is achieved the sellers will feel more committed to take care of the employees as long as they are in charge of the target organization Respondent B. P., for instance, has explained that if the sellers take more responsibility for retention this will have a positive effect on the employees concerned. Likewise, respondent H. J. has pointed out that retaining a certain part of the purchase price may motivate the sellers to care of the employees and that, as a result, the employees will be positively influenced. Based on the author's own experience this measure may actually have a positive effect on employee retention.

4.5.26 Imposing of non-compete obligations

Respondent H. J. has further explained that where key employees will sign new employment contracts and specific non-compete obligations are agreed, employees will be more committed to stay. If non-compete obligations are agreed it will be more difficult for key employees to depart as they will be limited in their choice of the new employer. In the author's view and based on his own experience non-compete obligations may influence employees' decision, indeed. Such measures would, however, not be fully voluntary on the employees' side and in case of a breach of this obligation practical problems with regard to enforcement of the obligation may arise. Notwithstanding these limitations, the author also concludes that non-compete obligations may be an efficient measure to positively influence employee loyalty.

4.6   Key Employee Identification

4.6.1   Top level executives as key employees

It is widely acknowledged in the literature that top level managers are key employees (Kiessling & Harvey, 2006, p. 1308; Cartwright & Cooper, 1993, p. 8; and Bergh, 2001, p. 616). The respondents have nearly unanimously confirmed this notion. They have, however, also pointed out that other employees may also be key for post-merger success and identification of key employees will depend on the particular circumstances of the case. This is explained in more detail below:

4.6.2 Operational and technical people as key employees

The respondents have expressed a nearly unanimous view that, depending on the particularities of the case, employees on the next levels down the hierarchy may also be key for post-merger success and may even be more important than top level executives.

While respondent G. P. has stressed that in transactions where the "private equity model" is applied focus should be on the top level executives that shall form the post-closing management team, many other respondents have suggested that key employees will be found on lower levels and will comprise those employees that have the relevant operational and/or technical expertise. The results reveal that where, for instance, customer contacts and/or specific product know-how is important it will be more important for post-merger success to focus on the operational employees, rather than on top level people. Respondent B. P. has, e. g., explained that in many cases the relevant management know-how and capacity was already available on the buyer's side, but that the acquirer was heavily dependent on the technical know-how of the acquired employees. Based on the research results one may conclude that managers attempting to identify key employees that must be retained post-closing should carefully analyze the organization and job functions and not only focus on the top level hierarchy.

4.7 Learning points summary

The research results and the main learning points in respect of key employee influence factors can be summarized in the following *Figure 4.1*:

Figure 4.1: Learning Points Summary Table

Dimension	Comments	Learning Points Summary
A. Importance of the human factor for M&A success	This section focused on basic concepts of M&A and the relevance of key people loyalty for post-merger success.	• High M&A failure rates reported in the literature is arguable. • Human factor/key employee retention can positively influence transaction success. • Although importance of key employee retention is recognized, organizations tend to not put enough emphasis on crafting and implementing retention measures. • Key employee retention success can be seen as evidence for M&A success.
B. Perception of major changes by employees	This section evaluated whether/why it is relevant how employees perceive change resulting from M&A and how this may influence key employee loyalty.	• M&A transaction announcement may create fear, distrust and other negative emotions. • Fear and distrust may occur not only among target, but also among own employees. • Fear and distrust may create resistance and jeopardize transaction success. • Perceived ease of movement may increase risk of employee departure.
C. External factors influencing M&A preparation and implementation	These questions focused on conditions that the organizations' external world imposes on the organizations and on factors that are difficult to control for managers.	• Legal restrictions may limit acquiring/merging organizations in their efforts to deal with retention issues. • M&A announcement may increase risk of key employees being poached and/or willing to trade improved employment conditions for loyalty. • The economic climate may have a significant negative effect on employee loyalty. • Differences in employment terms of acquiring/acquired or between merging organizations may negatively affect employee retention.

D. Internal measures designed for key employee retention	This section focused on measures that managers can influence and which may positively influence employee loyalty.	• Such measures may relate to the structure of the M & A process, the employees and the transaction conditions. • Key employees should be identified early in the process and retention costs should be budgeted/recognized as transaction costs. • Speedy/efficient implementation may positively influence retention rates. • Monetary incentives may motivate in the short-run, but long-term loyalty requires attractive job perspectives. • Soft factors, such as equal treatment, creation of trust, being emotional/emphatic will have a positive impact. • Open, frequent and timely communication is important. • Own employees are equally important as target employees. • Contractual provisions may positively affect loyalty.
E. Key employee identification	This section evaluates what types of employees are really key for post-merger success.	• Key employee identification depends on particularities of each transaction. • Top level executives are often key and to be retained. • Depending on actual conditions lower-level people with specific operational or technical know-how and/or relevant customer contacts are equally or more important.

4.8　Development of the validated research model

On the basis of the conceptual research model and the research results the validated research model can be developed and the following conclusions can be drawn:

1. There is a two-way relationship between the importance of the human factor for M & A success and the identification of the key employees that shall be retained. As key employee retention can positively influence the outcome of the entire M & A transaction it is of utmost importance that the real key people will be identified, i. e. those employees that will actually be able to positively contribute to post-closing success. On the other hand, the transaction goals will provide insight to the question of what kind of people will be required and will, thus, influence key employee identification. The validated research model, thus confirms the conceptual research model. However, the two variables high failures rates in M & A as well as risk of underestimation of importance of key employee retention are unsubstantiated.

2. There is a one-way relationship between external factors and perception of major changes by key employees. External factors that influence the preparation and implementation of M & A transactions will influence perception of the transaction by the employees. If, for instance, rumors emerge but the organizations are prevented from detailed communication due to legal restrictions, the employees concerned may feel afraid or exposed to other negative emotions. Or, if the economic climate is favorable the employees concerned may be less concerned as they may have alternatives (or, if the economic climate is bad, they may be even more concerned). On the other hand, perception of major changes by employees will not affect the external factors. The validated research model confirms the conceptual research model also in this respect. It has been found, however, that commitment of the own workforce is a further important variable that is not identified in the conceptual model.

3. There is a two-way relationship between perception of changes by employees and the internal measures that are designed for key employee retention. Both dimensions can influence each other. The internal factors, such as, for instance, frequent communication and sensemaking, may heavily influence perception of the change by the employees. On the other hand, if fear or mistrust among the employees is strong, managers may design the internal measures appropriately so as to reduce fear and mistrust. The validated research model confirms the conceptual research model also in re-

spect of this interrelation. The validated research model, however, does not confirm importance of the variable reduction of workload, and identifies a number of further variables and internal measures that affect key employee loyalty. These factors include (i) early identification of key employees, (ii) role of employee retention owner, (iii) retention/HR due diligence, (iv) retention as a cost factor, (v) the private equity model, (vi) equal treatment, (vii) being open, (viii) communication with own people, (ix) face-to-face communication, (x) focus on own people, (xi) linking purchase price payment to retention success, and (xii) imposing of non-compete obligations.

4. A two-way relationship exists between the external factors and key employee identification. For instance, the legal restrictions may influence key employee identification, and, on the other hand, key employee identification may lead to poaching by competitors as various respondents suggest. The validated research model, thus, goes further than the conceptual research model and shows that there is a two-way relationship between these two dimensions. Moreover, the validated research model provides that key employees are not only top level people (as suggested in the theoretical model), but may also be found on the next lower hierarchy levels.

5. There is a two-way relationship between the internal measures and key employee identification. If, for example, the acquirer conducts a retention/HR due diligence at an early stage of the transaction, he may be in a better position to identify key people. On the other hand, the number and type of key employees identified will influence the internal measures, such as the offering of incentive pays and/or new job roles as has been suggested by the respondents. The validated research model, thus, adapts the conceptual research model also in this respect and provides that there is a two-way relationship between these two dimensions.

The validated research model is summarized in *Figure 4.2* below. It shows, on the one hand, how the various dimensions are interrelated and, on the other hand, it summarizes all variables that have been identified on the basis of the critical evaluation of the literature as well as on the basis of the research results. Where the literature and the primary data is congruent, the respective factors are written in normal letters. Where the research does not confirm the variables identified on the basis of the literature review, the factors are written in italics. And those factors that are not considered in the literature but identified in the research are written in bold.

Figure 4.2: The Validated Research Model
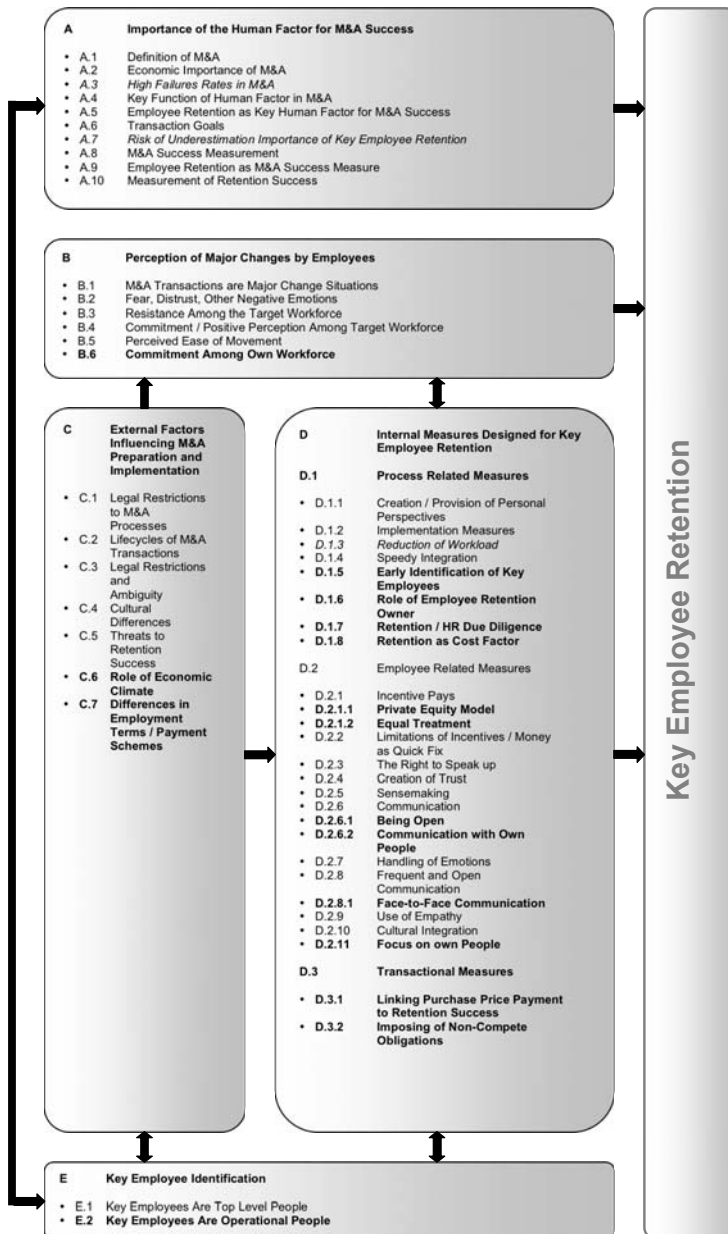
4.9   Summary

This chapter four has outlined the variables influencing key employee loyalty that have been identified by the respondents. It has further discussed the research results in the light of the critical evaluation of the literature as well as the conceptual research model. It has culminated in the learning points summary table as well as in the development of the validated research model. In the following chapter five the conclusions of the present study as well as some specific recommendations to management shall be presented.

Chapter Five – Conclusions and Recommendations

5.1 Introduction

In this chapter six the author will provide a brief summary of the study's findings and discuss the implications of the study for management. Further, this chapter will provide a brief discussion of the weaknesses of the research as well as opportunities for future research. This will be followed by a brief overall summary of the study.

5.2 Summary of the findings

The purpose of this work has been to describe the factors that may contribute to the key employees' decision to remain with the current employer or to depart when an M&A transaction takes place. The study has also sought explanation as to what managers can do to avoid key employee departure under such circumstances. To this end, the following *main question* has been investigated:

What factors influence key employees in their decision to stay with the employer or to depart when a M&A transaction occurs?

This investigation has resulted in exploring the following *sub-questions*: To what extent are key employees relevant for success of a mergers and acquisition transaction? How do employees perceive major change situations resulting from a merger and acquisition transaction? How do external factors influence key employee retention or departure, respectively? How do internal factors influence key employee retention or departure, respectively? How can leaders identify key employees? What can leaders do to retain key employees in M&A transactions?

Except in respect of the last sub-question, comprehensive answers have been provided in the above chapters. The extensive review of the literature as well as the research have provided detailed insight into the factors that may affect key employees' decisions and have allowed to develop theoretical as well as a practical model and to answer the research questions. The results have shown that the questions and the responses thereto are important for the understanding of the those factors that influence key employees' decisions to stay or depart when an M&A transaction takes place.

The results have revealed that five dimensions are relevant for key employee retention: The first dimension is the understanding of the importance of the human factor for M&A success. The second dimension refers to how employees perceive large-scale changes that result from the implementation of M&A transactions. The third dimension comprises external factors that may influence the preparation and implementation of M&A transactions; these factors are external in the sense that they cannot be influenced by the parties to a transaction, but which are rather imposed on them by the legal and/or economic environment. The fourth dimension covers internal measures that are designed with a particular view of key employee retention; these measures may be designed by the acquirer, by the target or by both organizations. The fifth dimension, finally, refers to the important question of who is a key employee that needs to be retained and that shall be the subject of specific internal measures, that shall be protected against negative implications from external factors and whose perception of the change resulting from the M&A transaction shall be as positive as possible.

These five dimensions and their interplay are depicted in the diagram contained in *Figure 4.2*. The arrows provided in *Figure 4.2* indicate which dimension influence what other dimension.

5.3   Implications for management

The last research sub-question is: What can managers do to retain key employees in M&A transactions? While all other research questions have been comprehensively answered in the above chapters of this work, this sub-question still requires a specific response. With a view of providing an answer to this question all participants have been asked at the end of the interviews to consider the following two questions: "What kind of measures that have been taken in the transaction(s) in which you have been involved would you recommend to other parties?" and "What kind of further measures would you consider and possibly implement in a future transaction?"

Responses to these questions have been consistent with what can be concluded from the respondents' answers to the other interview questions about factors that may influence key employees' decision to stay or to depart. However, these two questions have been asked with the aim of specifically finding out what managers should do to maximize key employee retention success and what the respondents would recommend to others. The fol-

lowing ten measures have obtained the largest support by the respondents and are considered to be the ten most relevant implications for management:

1. Pay incentives: The results reveal that it is highly efficient to offer monetary incentive packages to the key employees. Such packages may have a short-term focus providing cash bonus payments and/or a longer term focus offering equity-based incentives, such as e. g. stock options. Managers should ensure that the different programs are designed and kept simple so that they can be administered efficiently. Further, managers should aim at linking the paying-out of the cash-bonuses and the exercise of stock options or other equity-based incentives to actual performance.

2. Create personal perspectives: The study has further shown that managers should provide attractive future job roles and personal perspectives in order to keep key employees on board. This will include empowerment of key employees as well as allowing for entrepreneurship. Creating attractive future perspectives may also include crafting and explaining a clear vision about the goals and organization of the future employer.

3. Communicate properly: Managers should acknowledge that the role of communication cannot be over-estimated. They should start communicating about the transaction as early as possible in the M&A process, and they should communicate as much information as they can and are allowed to under the applicable legal conditions. When choosing the communication channels to be used managers should not rely on cold-communication only, but rather also communicate face-to-face. Very importantly, managers should not forget their own employees and always ensure that the communication processes are not focusing on the target workforce only.

4. Explain the deal: The research has also revealed that managers should invest sufficient time to properly and openly explain why the transaction takes place. In doing so managers should not only focus on hard facts, but also on soft factors and should, thus, try to win the hearts and minds of the employees. Employees should further have the right and possibility to speak-up, ask questions and raise concerns, and managers should carefully listen to what employees say and consider what they feel. Managers should, in other words, treat their employees with respect and take their concerns seriously.

5. Ensure retention of the right people: Another implication is that managers must ensure to retain the "right" people, i. e. those people that are actually key for post-closing success. This may require M & A managers to focus on top level employees. Depending on the particularities of the transaction this may, however, also require that they focus on lower-level people who have the required operational and/or technical knowledge and expertise or who have the relevant customer contacts.

6. Start key employee retention early: The process of identifying key employees should start early in the transaction process, preferably prior to signing. To this end managers should arrange for a specific retention/HR due diligence. If the key employees and the retention measures are identified early in the transaction process managers will be in a position to consider employee retention as a transaction cost factor and, thus, developing an accurate transaction business case. Managers must, however, also accept that in the early stages of an M & A transaction they may be limited by legal restrictions.

7. Ensure equal treatment: Managers should pay attention that employees are treated equally. This will require that they ensure consistency of the retention measures within the group and within the various M & A transactions that may occur within a group. This may further require to explain to employees differences of employment terms of the acquiring and the acquired organization, to the extent such differences exist, and to remove such differences over time. Very importantly, managers should never forget to consider their own employees, i. e. the acquiring employees, too.

8. Accept limitations of incentive pays: As one respondent has stated: "money doesn't do the trick". Managers must accept that financial measures have only a limited effect on retention success. Money may serve as a quick fix and short time helper to keep key employees on board in the short run, particularly in the critical phase that follows closing of the deal. But managers should not expect monetary measures to secure long-term retention success. For this reason, managers will have to particularly avoid that employees take the money and run away as soon as the retention period has lapsed.

9. Implement the change efficiently: The research has also revealed that "the proof is in the pudding", i. e. that the transaction must be efficiently implemented and that such implementation will influence key employee

retention. Managers should, in particular, avoid disruption between the various phases of the transaction as well as smooth handing over from one stage to the next. Efficient implementation will require careful planning and execution as well as allocation of sufficient resources.

10. Manage cultural differences: Finally, managers should put emphasis on cultural differences. They should try to identify and diagnose cultural differences as early as possible. Managers should further accept such differences and not attempt to suppress them. However, they should define a vision about a joined culture and develop the appropriate measures to actually get there.

5.4   Summary of implications

The ten most relevant implications for management can be summarized in *Figure 5.1* as follows:

Figure 5.1: Summary of Implications

1. Pay Incentives	• Offer short-term cash-bonus and/or • Offer long-term equity-based incentives (e. g. stock options) • Keep the incentive program simple • Link the incentives to performance and create realistic goals
2. Create Personal Perspectives	• Provide attractive future job roles • Empower key employees • Allow entrepreneurship • Define a clear vision about the future organisation
3. Communicate Properly	• Communicate as early as possible • Communicate as much as you can and you are allowed to • Communicate face-to-face • Communicate also to own people
4. Explain the Deal	• Explain why the transaction takes place • Try to win the hearts and minds of people • Let the employees speak-up • Listen to what people say and consider what they feel
5. Ensure Retention of the Right people	• Focus on top level employees • Focus also on lower level employees, as appropriate • Focus also on own employees • Understand how key employees work, think, feel
6. Start the Key Employee Retention Process Early	• Try to identify key employees prior to signing • Conduct HR due diligence • Accept and handle restrictions properly • Identify and consider key employee retention as transaction cost factor
7. Ensure Equal Treatment	• Treat key employees equally • Ensure consistency within group • Explain and remove differences in employment terms for acquiring and acquired employees • Do not forget own employees
8. Accept Limitations of Incentive Pays	• Money doesn't do the trick • Accept money as a quick fix • Don't expect money to secure long-term retention • Avoid people taking the money and running away
9. Implement the Change Efficiently	• The proof is in the pudding • Avoid disruption between the different transaction phases • Plan and integrate carefully • Allocate sufficient resources
10. Manage Cultural Differences	• Put emphasis on cultural differences • Try to diagnose cultural differences early • Accept cultural differences • Define vision about a joined culture and how to get there

5.5 Weaknesses of the research

As has been explained in more detail in chapter three, there are some weaknesses in the present research. The population that has been used for the study consists of twelve respondents who have provided their own, subjective views on the subject matters. This may particularly put some limits on generalizing the results with respect to other businesses than those covered in this study and to other parts of the world where different cultures may exist. A further limitation may result from the topic that has been chosen for this study. The interviews have revealed that M&A transaction results, particularly in respect of employee retention, are highly sensitive and confidential matters and people have proved to be very cautious when talking about such transactions and their results. Finally, the research has focused on managers / decision makers and not on employees that have been affected by M&A transactions and retention issues. The reason for this limitation is that it has not been possible for the author to talk to employees because of confidentiality concerns.

Despite these weaknesses, the research results are considered valid and reliable as appropriate measures have been applied to ensure validity and reliability as described in more detail in chapter three above.

5.6 Future research

Future research that could be conducted would include involving employees that have been involved in M&A transactions, that have been key for transaction success and have possibly been the subject to retention measures. This would widen the perspective of the research participants and allow for a view bottom up, i.e. considering how key employees perceive what is going on and how they are treated by management of both, the acquired and the acquiring organization.

Another dimension of future research could be to focus on further industries than the services and technology industries. This could provide interesting insight into the question whether employees are also a key factor for M&A success in other markets and whether key employee retention plays a key role in such industries too.

5.7 Summary

This study has provided comprehensive answers to the main research question and the sub-questions. On the basis of this research several practical

implications for management could have been developed and presented. The research has contained some weaknesses which are inherent to qualitative research. This notwithstanding, rich primary data has been collected, analyzed and linked to the existing literature. The research data has proved to be appropriate to explore the research questions. Further research can be undertaken to reduce the weaknesses of the present study and, in particular, to consider and reflect the key employees' views as well as to investigate the subject matter in further industries.

This paper can provide insight to managers into factors that influence key employees in their decision to stay or to depart when an M & A transaction takes place as well as to what measures they can develop to influence such decision making by the key employees.

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