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# Impact of M&As on organizational performance: The moderating role of HRM centrality

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## KEYWORDS

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**Summary** In this study, we examine how the effects of mergers and acquisitions on organizational performance are moderated by human resource management (HRM) centrality. We differentiate three types of ownership change: mergers, bidder, and target acquisitions. The study is anchored on the literatures addressing strategic human resource management and strategic contingencies of intra-organizational power. In an analysis of the data from the 2005 Cranet survey, results showed that (i) formalization attenuated a positive impact of bidder acquisitions and aggravated a negative impact of mergers on performance, but (ii) HRM strategic involvement and centralization of HRM practices boosted a positive impact of bidder acquisitions on performance. The study offers new insights about the role of HRM centrality, and suggests that mergers and acquisitions should be studied as differentiated ownership change processes.

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## 1. Introduction

Mergers and acquisitions (M&A) are popular forms of organizational change. Despite their popularity, however, they appear to yield mixed results (Agrawal & Jaffe, 2003; Cartwright & Schoenberg, 2006; King, Dalton, Daily, & Covin, 2004). This has been attributed to a variety of factors, including culture gaps and clashes, and incompatibility between, and loss of, key people (Bianco, 2000; Fairlamb, John, & Thornton, 2000). Executives who have been through processes of ownership change now recognize that the management of the human side is the real key to maximizing the value of a deal (Gunther, 2001; Kay & Shelton, 2000) and ex-

pect a proactive management of the human integration process to lead to a situation where both organizations win (Cartwright & Cooper, 1996).

Although it is believed that HRM can contribute to the success of M&A, there is a surprising lack of evidence to corroborate this view. In this study, we examine how HRM centrality affects the relation between ownership change and performance. HRM centrality corresponds to the status of HRM as a function in the organization, i.e., a combination of the perceived power of the HR department as an agent of integration, through the existence of formal strategies and the strategic involvement of HRM in the change process, as well as the centralized responsibility for HR practices.

The components of our analysis are ownership change (bidder acquisition, target acquisition and merger), HRM centrality, and organizational performance. With this work,

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we contribute to the field of HRM by examining the role of HRM centrality in moderating the relation between mergers or acquisitions and organizational performance, and by exploring how the moderating effect itself depends on the type of ownership change involved.

The paper is structured as follows: we first discuss the literature on the relationships between HRM, mergers and acquisitions and organizational performance. We then present the research model and our hypotheses. Subsequently, we describe the research method, and present the statistical analyses and results. We conclude by discussing the findings and their implications.

## 2. Theoretical background and hypotheses

Two core principles in the SHRM literature are: the importance given to the integration of HRM into the business and corporate strategy, and the devolvement of HRM to line managers instead of personnel specialists. Integration was defined as “the degree to which HRM issues are considered as part of the formulation of the business strategy” and devolvement as “the degree to which HRM practices involve and give responsibility to line managers rather than personnel specialists” (Brewster & Larsen, 1992, p. 411–412). SHRM literature has additionally emphasized the importance of HR strategy implementation and execution, which has been accompanied by a growing interest in relating HRM activities to competitive performance (see Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009, for an extensive review of the evolution of SHRM).

When companies merge or acquire/are acquired by, other companies, corporate strategy is the main driver of decision making, either to achieve economies of scale, to expand their market and internationalize, to spread their risk, to respond to radical changes in the industry and to improve efficiency and flexibility (Kumar, 2009; Schuler & Jackson, 2001).

However, the literature on the impact of M&As on organizational performance provides mixed results. Research in the finance area has focused on the creation of wealth to companies involved in M&As. Meta-analytical studies (Datta, Narayanan, & Pinches, 1992; King et al., 2004) show that positive results are obtained for target acquisition companies, and not for merging and bidder acquisition companies, but all lose when the mode of payment involves stock financed transactions, instead of cash. These are, however, short-term stock-market events studies, and when accounting measures were used (King et al., 2004) no significant or positive results were found. These findings notwithstanding, the level of mergers and acquisitions has not decreased, which suggests that these studies have not been “looking at ‘the right’ set of variables as predictors of post-acquisition performance” (King et al., 2004, p. 197).

In the management literature, research has shown that M&As’ impact on organizational performance fails to live up to expectations, for reasons associated with HRM and employment issues being poorly handled (Buono & Bowditch, 1989; Cartwright & Cooper, 1996; DeNisi & Shin, 2004; Reeves & Edwards, 2009; Stahl, Mendenhall, & Weber, 2005; Weber & Drori, 2008).

### 2.1. The moderating role of human resource management centrality

Effects of M&As on both employees and managers, on corporate culture integration and on systems alignment suggest the integration of human resource management policies and practices as a potential contributor to company post-acquisition performance.

Although the link between HRM and organizational performance has been demonstrated by the SHRM literature, Guest (2011) argues that studies to date do not reveal how this association works, or even the direction of the relationship, which suggests focusing on some process issues, such as HRM legitimacy, consistency and relative power that may create strong HRM systems (Bowen & Ostroff, 2004).

M&As are major organizational life events that generate great internal turbulence and causal ambiguity (Cording, Christmann, & King, 2008; Lakshman, 2011). This causal ambiguity is present not only at the interfirm level, due to cultural differences that may hinder knowledge transfer in the post-acquisition stage, but also at the intrafirm level, particularly among middle managers who are the major strategy implementers (Lakshman, 2011), and lower level employees, who fear for their career development and, ultimately, for the continuation of their employment. It is only natural that successful human integration in processes of ownership change will require HRM to play a more central and strategic role in their organizations (Björkman & Söderberg, 2003), namely in establishing systems to promote trust among organizational actors in the merging firms and to create an organizational architecture of human resource practices that ensure motivation to cultural integration, in terms of rewards, performance management, skills development, staffing, industrial relations and workforce reduction.

The HRM function should be strategically involved in the early stages of the integration process (Lakshman, 2011) in order to capture the complementary capabilities of the companies and therefore create the conditions for the aimed synergies to be accomplished.

Besides, and based on the SHRM literature, HRM must be strategically coordinated in order to play its positive role (Combs, Yongmei, Hall, & Ketchen, 2006; Delery, 1998; MacDuffie, 1995) and emphasis needs to be placed on the implementation process, so that firms create strong HRM Systems (Bowen & Ostroff, 2004). This, in turn, requires that corporate and HRM strategies should be formalized, which can increase the ability to cope with uncertainty.

Additionally, according to Danya, Guedrib, and Hatta (2008), performance is better when influence over HRM issues is shared by HRM specialists and line managers (LMs), except when there are major organizational changes, in which case the HRM specialists’ role should predominate in order to overcome the potential lack of interest, time and competences of LMs in HRM issues, themselves overloaded by the extra responsibilities demanded by the change process. The primary responsibility for various HRM areas should then be centralized with HRM specialists, who should be involved in the design and implementation of HRM policies and practices from the outset.

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