Examining the role of changing organizational culture on IT employees’ commitment in M&A – Insights of a case study with a German software company

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Abstract. Managing IT employees’ commitment in and after mergers and acquisitions (M&A) in the software industry is a key reason for success and failure of these initiatives. Thus, the purpose of this research is to identify influencing factors for IT employees’ organizational commitment level during this process. Based on the case of a German software company that has been involved in several M&A over the last couple of years, qualitative data was gathered via personal semi-structured interviews with acquired employees, managers, and employees concerned with the mergers. All interviews are conducted and evaluated as well as presented using a narrative case approach. Results of the interviews suggest an overview on fields of action and processes in the field of organizational culture. Findings show that those IT employees, who’re feeling being part of the new organization are more likely to stay motivated and committed while creating something new. In contrast, a strong culture at the prior employer lowers the feeling of being part of the new software company. As main contribution, this research discloses the two-sided coin of communication leading both to enhanced commitment due to increased transparency as well as to information overload decreasing employees’ commitment during an M&A.

Keywords: Employee Commitment, Software Industry, Mergers and Acquisitions, Case Study
1 Introduction

Researchers believe that companies engage with mergers and acquisitions (M&A) in order to increase profitability. But many other reasons, such as operating and financial synergies, contribute to an increasing activity of M&A as well [1]. Especially in the software industry, the progressive level of competition linked to M&A is remarkable. M&A trail organizational changes, which lead to different feelings, such as frustration, insecurity, stress, or non-appreciation among employees. These reactions can have a huge impact and cause the employees to rethink their commitment level to the organization. Although M&A might have many gains, such as increased turnover or profit, some companies look good on paper in the beginning, but hick-ups will confront both sides. M&A, especially in the IT industry, are very trendy and much sought-after since 2005, because these unions increase sales performance, grow assets, and develop networks.

While M&A are in great demand, companies have different processes, approaches or methods regarding the management of their employees during M&A, and this is an often critically discussed and considerably researched topic [1-3]. Within the Information Systems (IS) field, studies on IT workers’ commitment have a long tradition, but to date there is no work examining their commitment during an M&A initiative [4-7]. Prior research only emphasizes that IS managers need to focus on the effect of motivating potential, group cohesiveness, and stress level during change initiatives [4]. According to Klaus et al., these aspects contribute to greater IT worker commitment, minimize turnover, increase their retention, which, especially in the IS industry, contributes to the company’s profitability and long-term survival during larger organizational changes [4-5]. While employee commitment is considered being very important and the core variable in several research approaches is IT workers’ turnover [6-7], there is still a research gap when it comes to the role of employee commitment during different stages of organizational development, such as after a merger or an organizational acquisition.

Therefore, this research aims to answer the following research questions:

RQ1: What are drivers and consequences for the commitment of acquired IT workers during an M&A initiative?
RQ2: What is the role of the changing organizational culture before, during, and after the M&A initiative?

In order to answer these research questions, this paper applies a qualitative research approach and introduces cases of several M&A processes involving a major German software corporation and acquired firms. In order to gather useful information, semi-structured personal interviews with managers, and employees affected by M&A were conducted. The respective data was evaluated and presented, using a narrative case approach [8]. Before we represent our case study results, we review prior literature for factors and concepts influencing employee commitment during M&A initiatives in the following section.
2 Research Background

This section will share theories and concepts as well as categorize topics on the role of organizational culture possibly affecting employee commitment during M&A. These aspects show the cause behind the proposition formed at the end of this section, which state the relevance of this study.

2.1 Influence of Old and New Organizational Culture during M&A

Cartwright and Cooper compare M&A with a civil marriage of two people and explain that they disturb the cultural peace, because when two different cultures come together, it might clash [9]. The bigger the difference, the bigger is the clash. Robinson indicates that start-up companies shoot from the hip while large concerns have their established processes [10]. Both have their advantages, but this can cause an organizational culture collision very often and lead to blurry working environments, conflicts among the employees and stress. Thus, less employee commitment is given and consequently the organizational performance is affected by job dissatisfaction [9].

Although most organizations agree on the fact that culture creates value to an organization, they have not found a successful recipe, because there is no ‘right’ or ‘perfect’ culture. It only depends on how two cultures get along with each other, just like in a marriage [9].

Cultural Orientation and Types

Previous literature on organizational behavior provides the foundation for Cameron’s “Competing Values Framework” consisting of four quadrants – collaborate, control, create and compete [11]. Each one stands for a particular type of culture. The create-oriented culture has its focus on the products and future innovations, constantly developing new ideas based on technology and processes. Employee development, involvement and satisfaction are the characteristics of a collaborate-oriented culture with the aim to build skills and employee commitment. The control-oriented culture concentrates on transferring better processes to improve the efficiency. Whereas the compete-oriented culture strictly follows and observes the external competitiveness, which is determined by shareholder value, customer satisfaction, market shares, and so on [11]. An organization might have dominating aspects in its culture, but usually a little bit of every quadrant is present, because of differing forms of value creation. This might influence the merger type, because in an M&A the cultures can differ dramatically due to two different cultural approaches. This can result in frustrated employees leaving the organization or not performing efficiently in all merger phases.

Communication Culture

Regardless which cultural orientation or type companies have, employees are involved and will behave accordingly to the alignment of two organizational cultures. Larsen explains that in order to have a good relationship with employees and establish trust in general, a transparent communication is needed [12]. Furthermore, Larsen
suggests supporting the communication strategy with managerial listening sessions [12]. Listening people evokes a feeling of appreciation and values opinion among the employees. This triggers loyal behavior towards the organization, lowers fear and increases satisfaction. Watson emphasizes that fear, doubt, and uncertainties are steady companions of M&A, because people will always have the question of what will happen next [13]. Furthermore, Watson stresses that an honest, informing, engaging and balanced communication will not result in a high level of fear [13]. Adding to this, Nahass et al. point out that communication has to be present at all stages – from the beginning to the end and long after the integration – because this transparency takes away fear, builds trust and therefore increases employees’ commitment [14]. On this basis, Schwaab et al. illustrate that adequate information for employees’ motivation is necessary, but not enough [14]. The top management has to show also persuasiveness, assertiveness, credibility and even more. Therefore, people who are part of the M&A should receive and give enough information at each stage at the integration via communication. Every concern needs attention, in order to build trust, increase the bond strength, lower uncertainty and grow employee commitment.

Cultural Working Environment
Organizations have different working environments, which are an important part of the culture. During an M&A, employees are in an identifying mode if they are compatible with the new organizations’ work environment. For example, many companies have dress codes, core times or modern and colorful offices as well as room for creativity and new ideas. Mitchell et al. stress that employees seeing themselves suited to the organizational culture, are more attached to the organization in a professional and personal way [16]. Hom and Griffeth and Kane-Urrabazo suggest that the strongest indicator for employee retention is the creation of a positive working place and the linkage to job satisfaction [17-18].

Cultural Awareness
Schwaab et al. explain that M&A cause stress and fear for the individuals, because they are personally affected [15]. Whether it is the loss of workplace, the new technology, a change in the team, the long sought for career step, or the new organizational culture with a possible new name of the company. Schwaab et al. stress that M&A will always trigger fear, because each individual has different experiences, personalities and emotions [15]. It is more important to figure out how to deal with this fear and stress level employees have. Hereby, the organizational environment and the culture have a major role. The culture can lower the fear or stress level of employees by seeing it as a chance for the new or creating diversity [15]. In order to understand this, organizations have to achieve this cultural awareness and spread it.

Organizational Development & Diversity
The organizational development is a major factor in a human resources structure and adds to the company’s’ culture. According to Groysberg and Fernandez-Araoz, an organization needs to follow three steps, in order to find and develop their rising stars.
First, create a clear structure for the organizational priorities. Second, know how to select the right high-potential employees and third, have a plan on how to develop and reward these high-potentials. These steps can also be applied during an integration, in order to keep the acquired employees on board and increase their commitment level [19].

### 2.2 Research Proposition

After discussing the issues of M&A and examining a part of the existing literature regarding managers, work task, organizational culture and individual differences in general and in M&A, the focus is now shifting to the aim of this case study. It is based on a qualitative data gathered in semi-structured interviews. As mentioned before, there is still a research gap when it comes to the role of employee commitment during different stages of organizational development. It appears that although many companies have a theoretical construct with an overall picture of influencing factors of present or future employee commitment, still M&A fail or the aftermath endures too long. Therefore, within this case we observe the following proposition.

**Proposition:** Cultural integration at the software company is not always successful, because communication and information can lead to confusion and consequently exclusion.

### 3 Methodology

The subsequent sections describe the methodology including the applied research approach, case description, and data collection instruments as well as data analytics instrumentation.

#### 3.1 Research Approach

The methodology of this case study follows a concept named “a linear but iterative process”. Yin outlines that a case study is “a contemporary phenomenon (the “case”) in its real-world context, especially when the boundaries between a phenomenon and context may not be clearly evident”, whereof the researcher has little control over the phenomenon or its behavior as well as a contemporary focus [8]. This case study consists of Yin’s five features. The interviews allowed the participants to share what they want and feel and were not limited to questionnaire procedures (people’s performance under real life conditions). Additionally, the three different groups gather different participant views, which emphasize the feelings and values of people who actually lived the incident. The contextual conditions, such as the social and external environment, have a strong effect on these incidents that people lived. Furthermore, the company employees bring in new perspectives and exclude the branding experiences from the past (preexisting and originating concepts). In addition, the three different groups base its conclusions on various sources. These five features lead to a mosaic of methodological and philosophical views, which
contribute to different interpretations of people of the same event [8]. The multiplicity in interpretations gives the opportunity to present how opinions differ, because every individual interprets and feels experiences – the same reality – in a different way [11]. Furthermore, the different perspectives show where the company has faulty processes and what leaves room for improvement in order to reach a high level of employees’ commitment during and after M&A.

3.2 Case Description

The company in our case has about 78,000 employees in 130 different countries and acquires companies since 2007. To observe the effect of old and new organizational culture, the interviewers selected a total number of 20 individuals from the software company in Germany, which represent the larger group of employees regarding the M&A topic. These interviews demonstrate three expert groups, whereof eight interviewees were acquired employees from different acquisitions during the past thirteen years (AcqEmpl= 8), seven current employees concerned with M&A and HR processes (Empl= 7), and five employees holding management positions (Mgmt= 5).

The acquired employees shared their views in regards to contextual environment such as communication, technology, security, manager’s role, trust, pace, information flow, being a part of the old and new organization, as well as their commitment level during the integration. The current employees contributed by explaining the effect on their internal daily working tasks in regards to feedback of acquired employees. The management group accompanied integrations from different departments, such as labor relations, M&A, board office, as well as HR and shared their so-to-say external perspectives on integrations. Each member of every group was part of M&A directly or indirectly of approximately seven different acquisitions in the last thirteen years. This contributed to multiple perspectives and sources of evidence (triangulation) in regards to integrations. The length of each interview was between 20–45 minutes and had the format of an open and virtual conversation. In order to gather the data and record the interviews in mp4 format, quiet rooms at the workplace were provided. The interviewer recorded the sessions and transcribed them subsequently. The interviews were conducted in a rough time span of one month, absolute anonymous and on a voluntary basis. In total, there are eleven female and nine male interviewees.

3.3 Data Collection Instrument

The different interview groups as well as acquisitions of this case study reason a multiple case design categorization. It explores a unique case as a unit with multiple acquisitions and data including documents, interviews and physical artifacts in form of company servers and former M&A information as sources of evidence [20]. This case study leans on a descriptive and explanatory approach that pumps as much information as possible [20]. Therefore, the interviewer used semi-structured narrative interviews. The interviewer asked the participants consistently for precise emotional states during the integration in order to overcome the past time frame of 13 years and filter the experienced feelings. Thus, the interviewer was able to support the
participants’ deviation or asked further questions in case of insufficient answers. This structure of interview is also called in-depth inquiry and was supported by “how”, “why” and/or “please describe” questions as well as matters with scalable answer possibilities following the request to describe their decision [8]. Besides the interviews, notes, tables, and narratives created the case study database.

3.4 Data Analytics Instruments

In a qualitative research, the focus is on the relevance of reviewed subjects concerning content representativeness. This means, the individual aspects play a major role. For this, Yin explains that generalization, validity and reliability have to be considered entirely [8]. In this connection, several steps were listed – paraphrasing, thematic order and comparison, conceptualization and generalization. First, paraphrasing implies that the content of the interviews are reflected and statements to a certain subject are highlighted, following the main themes from the interviews were assigned and compared (thematic order). In the conceptualization phase, commonalities and differences considering the theoretical body of knowledge of this study are expressed. The final phase of the analysis is the analytical generalization aspect, which compares the previous theoretical propositions to the results of this study. This study includes interviewees with acquired employees, managers as well as current employees of the company comprising M&A of the last thirteen years and is exploring an empiric subject by following Yin’s iterative procedures [8].

4 Results

This section delivers categorized insight into the different perspectives and aspects of cultural change before and after the integration. For this, the resulting data is described by examining and categorizing the feedback of 20 semi-structured interviews and the above mentioned literature regarding influencing factors for employees’ commitment. The following themes originated from this procedure.

Old Culture

All of the acquired employees mentioned how comfortable and fully committed they felt with their old employer. Additionally, the start-up or hands-on mentality was emphasized. Due to several factors, their commitment changed once the integration to the software company took place.

“It was a great place to work. We had something called "Hybris Spirit", which kind of described our way of work..."It's a life style, not just a work place"... It was a culture open for mistakes. We had quite a hands-on mentality, because we did everything for the first time. It was quite a family feeling.” (Interviewee1, AcqEmpl)

One pointed out that the average age in their former team was younger, which contributed to a more dynamic working environment and behavior. Interestingly,
some mentioned their loyalty towards their old employer, because the relationship with the organization was not only on a professional, but also on a personal level. “...the things they've done for me - both professionally and personally - have been pretty great; so I feel a great deal of loyalty there.” (Interviewee4, AcqEmpl)

Also, almost all of the acquired employees pointed out that their colleagues and ‘creating something new together’ contributed to a great deal of loyalty and a feeling of ‘being an important part’ of the company (Interviewee5, AcqEmpl, p. XXI). Interestingly, one explained that a start-up company has only a few employees who might have to do more than they had to. This includes the willingness to dedicate more time and effort to the organization on a voluntarily basis. “Culture - especially - was a big, big topic... when you are kind of small, you need people to play many roles, and people that are willing to not simply do their stuff, but take on things that need to be done.” (Interviewee6, AcqEmpl)

These aspects all led to high levels of commitment with the prior employer and prevented the development of commitment with the new employer.

Organizational Culture
Many of the interviewees highlighted that the company has a lot of diversity in terms of people, culture, and languages and is a very open-minded organization with room for new ideas. “I am not native German... culture means that everyone is welcome. They don't expect me to speak German... to understand their culture, at least in a professional environment. Everything is diverse and respectful.” (Interviewee11, Empl)

Furthermore, the culture of networking in terms of coffee appointments was mentioned in a very positive way. The coffee corners mentality offers the face-to-face meetings, which give employees a personal note to their work. Nevertheless, employees note the lack of understanding relating to processes and procedures among the acquired employees during the organizational change. It was mentioned that there was no room for flexibility to approach processes differently. Everyone had to follow the established process steps, which were time consuming and partly confusing. “Since the company is such a big company all processes take rather long. Everything is kind of linked to a formal procedure. And employees from acquired companies, which are usually much smaller than this software company, are not used to all this formality which at times can lead to frustration.” (Interviewee14, Empl)

The Giant
Many interviewees mentioned that the size of the organization and the volume of the change matters when two cultures come together. Instruments such as buddies, coffee corner sessions or organizational tools provide an additional insight into both organizations. However it was largely expressed by acquired employees that the software company was perceived as the ‘Giant’. The primary reason for that was the imposition of working behavior and neglecting their culture.
“It was more of ‘Wow. We bought you. We’re a huge company. We know what we are doing. Here’s what you’re going to do.’ And for some things they’re probably right to do that. In other case… the things they were trying to tell us… simply wouldn’t work for us. We understand that the software company bought us and therefore they have the right to make certain decisions. But at the same time we’re trying to tell them what made us successful…” (Interviewee4, AcqEmpl)

Interestingly, one interviewee explained that employees’ commitment level decreases automatically in an integration with two companies differing this much in their sizes. In a start-up organization, this combination was seen as a given fact. Due to the size of the company, it was rather perceived as impossible to establish this kind of combination and therefore a high level of commitment in the company.

“I’m not working for and with, at least, 75 thousand people - I will never meet them, I will never talk to them. I have no idea what they are doing. And it’s likewise. So I rely on a lot of things that happen without having the tiniest chance of influencing anything. By way of not being … the 1/75000th part of a company, my potential influence on anything, of course, has diminished as well. And in that sense, of course, it’s harder to build up that relationship and that amount of trust and commitment to a company that you had before.” (Interviewee6, AcqEmpl)

Respect
Showing mutual respect when two organizations come together was found to be a fundamental element of culture. The managerial interviewees are aware of the fact that people at the company tend to think their working behavior is more structured compared to the small-acquired company. The correlation of the ‘behemoth’ and the ‘small, innovative and shooting from the hip’ company causes disturbance, because the basic behavior among individuals have to be given, in order to create something new together. Employees believed that respect needs to be given first and it is in everybody’s own hands. Therefore, a respectful treatment and showing interest in the counterpart is a crucial aspect.

“There is also a cultural aspect, which is respecting the culture that they come from and respecting the success that they had as a company… When they come in, there is this tendency to want to impose the same structures on them as we have… I think, sometimes some of that is necessary… And if you do need to impose certain rules, than we need to do it in a more sensitive way. And I think the other cultural aspect is just valuing what they do well. Making sure that this is being recognized and appreciated.” (Interviewee19, Mgmt)

Having a Voice
Current employees assumed that the new acquired employees don't have a voice although many instruments are offered. In particular, the coffee corner session was described slightly underemphasized that it might not be the best instrument, because not every person is comfortable with speaking out concerns in front of others.

“Sometimes they get a voice… I don’t have the impression that the exchange is going on very well… Yes, they have some options to express their selves in coffee corner
sessions. If they dare to, but I think not everyone likes to speak up in a coffee corner session and to express his/her concern. This depends on your character...” (Interviewee12, Empl)

Interviewees found that being a part of this company have a great influence on the colleagues, the emotions and the organization. The cultural integration is at an acceptable level, but still has room for improvement. In order to make everyone a part of the organization and avoid ‘us vs. them’ attitude, listening and responding to the employees is one starting measure in cultural workshops, considering that finding the balance in cultural differences varies case by case. Therefore, approaches have to constantly be customized.

“That's another one of those things that you need to figure out in the cultural assessment upfront. Is this the kind of company that would like that and wants to feel as a part of the software company? Or do they want to be left alone a little bit more. Often, they do want to be left alone. But then the question is, we don't want to leave them alone too much, because than they won’t feel like a part of the family. So, you always have to come up with that balance.” (Interviewee19, Mgmt)

5 Discussion

We started our qualitative investigation with the proposition that cultural integration in M&A is in the software industry is not always successful, because communication and information can lead to confusion and exclusion. We outline the major implications of our research on drivers and consequences of IT workers’ organizational commitment in M&A initiatives in this section. Therewith we emphasize how IS research on managing the workforce can benefit by our approach [4-7].

5.1 Implications for Research

In integrations, culture is multifaceted. One important aspect is the cultural orientation. Following Cameron’s explanation about cultural orientation, the software company belongs to the create-oriented section, since it has its focus on the products and future innovations, constantly developing new ideas based on technology and processes [11]. Relating to M&A and according to the theory by Cartwright and Cooper [9], the company follows the approach of a redesign merger during an integration, which includes creating win-lose situations. This means, the dominant acquiring company forces its culture onto the acquired company. According to many statements from interviewees, the software giant’s cultural dominance during an integration applies completely. One reason is the difference in the size of the companies. Most of the acquired organizations are significantly smaller than the software company. Another point is the lack of flexibility from the company’s side when it comes to processes and procedures. On the one hand, these established and structured activities are needed. On the other hand, acquired employees see the
company as a behemoth forcing their cultural aspects onto others. The expectations are rather different and asking for the acquired company’s ‘recipe’ for success is missed.

Secondly, communication is essential for employees going through a complex organizational change. The interview results are the basis for dividing the negatively perceived communication and information in three categories. First, interviewees pointed out that lack of communication leads to uncertainty among the employees and consequently results in dissatisfaction. Second, the wrong communication/information leads to distrust, because too optimistic communicated aspects cannot be fulfilled later on. Whereas too much communication/information is very overwhelming and end up e.g. in deleting mails.

"Yes, the software company sends out tons of emails..., but there is always a delete button if you are not interested." (Interviewee1, AcqEmpl)

All three categories result in confusion, frustration, lack of trust and dissatisfaction, which are influencing factors for commitment. Although the software company tries to include the employees during an integration via their numerous communication instruments, employees are totally confused or overwhelmed at some point, which leads to exclusion. These aspects negatively affect employees’ commitment level. Based on the mentioned literature, this could have a negative effect on employees’ productivity and therefore the company’s success. Moreover, this could be a reason why some employees are still rebuilding their relationship with the new employer, although the integration was several years ago.

5.2 Implications for Organizational Practice

The company observed in this case studies is known as a very attractive and reliable employer that puts a huge focus on their organizational culture and employees. The happier the employees, the better the performance. Moreover, the company values employee satisfaction and therefore puts their focus on motivation with various programs or methods. One program is called the Fellowship program, which is designed to engage employees in strategic projects and to grow strengths in different business areas. It can range from 4 weeks to 6 months in length and includes a possible relocation. The main purpose of this program is that employees accelerate readiness for broader responsibilities and collaborate on strategic projects to support execution of the company’s strategy. One interviewee mentioned that there was an employee, who took part at this fellowship program, mainly to support them in their integration phase. His responsibility was to onboard his future colleagues in company systems and tools including its forecasting, budgeting and Q&A sessions. This helped to shorten the learning curve. Moreover, they felt appreciated and addressed all the concerns or issues in that area. The fellow on the other hand, was able to dive into a different department in another country. Therefore, this program is an ideal option to expand in the pre-merger phase of M&A in the future. This could help to reduce the frustration level among the employees regarding the technological area and provide a confident and positively emotional stage during the integration among the employees.
Furthermore, it would suit the acquired employees, because they often mentioned in the interviews that they prefer the face-to-face contact in such organizational changes. A second point, which was mentioned by some interviewees, was related to the cultural workshops. Here, it was a group of employees, who visited the acquired companies to approach possible issues, offer transparency, discuss strategy, set up cultural scans, ask for feedback etc. As far as it was explained, this only happened one time during an M&A, although it received only positive feedback to this procedure. This might be another option to tackle and implement the cultural workshops as inherent part in the M&A processes in the pre-merger phase for future integrations.

There is a lot of energy in the beginning of an M&A and the organizational change will carry many emotional stages. It will start with excitement and continue with doubt and discomfort. At this turning point, difficulties with various aspects will rise. The importance is to use the right measures at this explicit turning point to reduce the negativity and increase motivation and commitment. Moreover, it is important to understand that acquisitions are a good thing and help to secure a company’s success. As one manager explained:

“...these acquired companies, they help us and they secure our revenue stream, our success and with that we have the workplaces we have right now. For every acquired workplace, we secure another year or something like that and to me it’s clear that it’s that way, but maybe that should be clearer to everyone, or should be made clearer to everyone here.” (Interviewee20, Mgmt)

5.3 Limitations and Interesting Avenues for Further Research

Nonetheless, the study has limitations. The study was conducted with 20 employees and based on qualitative data. Meaning, although the theory proves that lack of trust, communication etc. leads to frustration and therefore to low commitment level, the values from the interviews are not analog to the statements received from the interviewees. While acquired employees are very frustrated in many aspects, their commitment level is only minimally lower, which is a compliment for the new employer. Surprisingly, current employees and managers estimated the commitment level of acquired employees extremely lower. The same findings were examined with the overall expectations in relation to commitment level. We assumed that the company must have other positively influencing factors for commitment, which convince the employees and avoid the extreme decrease of commitment, e.g. the IT industry, size of the company, numerous opportunities. However, in order to find out the reasons for the nearly non-changing commitment level among employees during an integration, large-scale interviews in the IT industry might be an idea. Hereby, it is suggested to put the focus on qualitative data again, since it offered a good platform with much information.

Secondly, interviewing drop-offs of former M&A can support creating a wider understanding of this matter. This could give further insights to commitment, turnover, and other predictors that could add value to the organization and research.
References