SHEFFIELD UNIVERSITY
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THE ROLE OF HUMAN RESOURCE AND CULTURAL FACTORS IN THE SUCCESS OR FAILURE OF MERGER AND ACQUISITION STRATEGIES: THE CASE OF SAUDI ARABIA

BY

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ABSTRACT

The role of human resource and cultural factors in the success or failure of merger and acquisition strategies: The case of Saudi Arabia.

For the duration of the past three decades a growing number of research has proved that business evironments are evolving at an accelarated rate that require new organisational forms, strategies and pocesses. In other words, in a hyper-competitive environment with increasing globalisation, it is hard for a single company to possess all resources needed to develop and sustain current competitive advantages whilst trying simultaneously to build a new one. Clearly, in order to gain and sustain competitive advantage in such turbulent environment, organisations need to combine or co-operate with one another organisations. This could explain the popularity of merger/acquisition strategies in the last two decades.

However, the results of these strategies were disappointed because merger/acquisition strategies did not achieve the financial objective of the combinations. Number of reasons attributed to such failure, such as the price of the deal is too high, the time of the deal is inappropriate etc. However, by delving deeper into both human and organisational sides of the deal would enable us to realise the essense of merger/acquisition failures or successes: The human resource and cultural factors in addition to the way such issues are managed. Yet, these essential factors often neglected during merger process as soft issues.

Therefore, this study aimed to investigate the role of human resource and cultural factors in the success or failure of merger/acquisition strategies and how these factor would enable companies to gain and sustain their competitive advantage. The influence of external factors on mergers/acquistions also investigated. To achieve these aims, this study designed to involve two groups (merging and non-merging companies) and two different sample units for each group (top and middle management).

The results signify that human resource and culture factors are critical for the success of mergers/acquisitions. In other words, this study gave evidence that underatanding, analysing and managing the redundancies, caltures clash, uncertainty, stress and low morale that often associate with such strategies through effective communication, coping programmes and procedural justice would increase the possibility of success, yet neglecting such essential factors would prove the failure of these strategies. Internal factors were proved in this study to be unique success factors in the context of mergers/acquisition, but external factors were proved to be impertant for both merging and non-merging companies.

Chapter 1

1. INTRODUCTION

1.1 INTRODUCTION

The today's business environment is constantly changing at an accelerated rate (Emery and Trist, 1965; Terryberry, 1968; Bettis and Hitt, 1995; D'Aveni, 1995; Toffler, 1970; Hamel and Prahalad, 1994; Sampler, 1998). For instance, customers have become more demanding and competition is fierce at home. In terms of abroad, the market is volatile and technological advancement has shortened the product life cycle. Moreover, it is predicted that rivalry will be intensify during the next decade due to the liberalisation of trade among nations as they join the World Trade Organisation (WTO).

Companies that can operate successfully in such a turbulent environment are not the dominant ones; it is those that can accommodate to its context appropriately (Augustine, 1997). Companies have to search for ways to develop and obtain competitive advantages in order to operate effectively in the marketplace. Due to the turbulent business environments in many industries, adaptability is essential if competitive advantage is to be built and sustained (Compel, et al, 1999). Adaptability is the ability of a company to design and organise itself in such a way that enables it to cope with the changing environment efficiently and effectively. Competitive advantage could be realised when a company selects an appropriate strategy that best fits the company's competitive environment and implements this strategy more effectively and efficiently than competitors (Porter, M., 1985).

Indeed, huge numbers of companies in both the U.S. and Europe have adopted a merger and acquisition (M&A) strategy as a way to face business challenges. Between 1966 and 1985 there were 62,246 U.S. mergers and acquisitions (Ellwood, 1987). Schwieger and Weber (1989) noted that M&As have become a major part of American business. As evidence "over 12,000 companies and corporate divisions - worth about one-fifth of the market value of all traded stocks- have changed hands" since 1983 (Lubatkin, 1988:295). Since 1983, there have been over 2,500 M&A

transactions annually in the US alone. The number of M&A deals among European firms has risen from 117 in 1983 to 440 in 1988. Moreover, the number of M&As among firms from different countries has increased dramatically (Schwieger, et al, 1998). Furthermore, M&A activities showed no sign of slowing down. During 1996, more than 10,200 M&A deals worth about $659 billion have taken place in the US (Sameual, G., 1997).

However, most of the companies over the world that pursued M&A strategies were not satisfied with the results, since M&As did not achieve the financial objectives of the combinations (Schwieger, Csiszar & Napier, 1991). Acquired companies often showed poor performance in terms of market and accounting value (Agrawal, Jaffe & Mandelker, 1992; Datta, Pinches, & Narayan, 1992). There is also evidence that approximately 30% of M&As end in divestiture and up to 50% are considered as unsuccessful (Business Week, 1985). According to the American management association, only approximately 15% of M&As realised their objectives as measured by shared value, return on investment and profitability (Mitchell, M., 1997). According to the Hay Group, about one-third of all acquired companies are sold within five years and approximately 90% never satisfy with the results (Lefkoe, 1987). A study conducted by Fortune magazine, estimated that approximately two-thirds of M&As would have produced better financial results if the company had invested its capital in certificates of deposit in commercial banks (Magnet, 1984).

There are a number of reasons that may have contributed to this unpreferable track record of M&As such as selection of an inappropriate partner, the price of the deal being too high or the transaction timing may be poor. However, the single most important factor tends to be the process by which the deal is implemented (Zollo, M., 1999). More specifically, neglecting human resources (HR) aspects during the M&A process leads to difficulties when the time comes to integrate the merging workforce (Mitchell, 1997). In a survey of 88 senior HR executives whose firms had undergone M&As, they reported that M&As primarily are driven by financial and/or marketing perspective, while the human element is often treated as a secondary concern (Axel, 1997). Top executives and lawyers usually do not pay much attention and time or thought to human costs in term of lost jobs, reduced status or cultural differences during the M&A process (Schwieger, Ivancevich, 1985). Furthermore, the primary research focus has been the study of financial returns in term of both accounting (Mueller, 1977) and financial perspective (Halpern, 1983; Jensen and Ruback, 1983).

There is also very little systematic evidence regarding how M&As affect the employees of acquired companies (Walsh, 1986). Therefore, appropriate attention paid to the human aspects could help explain the failure of many M&A strategies to realise desirable results.

Recently, many researchers have drawn their attention to the importance of HR involvement in all stages of the M&A process (Buono and Bowditch, 1989; Marks and Cutoliffe, 1988). In practice, research still indicates the naive influence of HR on the M&A process (Cody, 1990). During this period, corporate lawyers and financial experts play the dominant role in the M&A activities, this leads to a high level of segmentation of M&A related efforts, with a high degree of attention focus on financial and legal issues (Jemison and Sitkin, 1986). There is increasing interest and a growing amount of research on the impact of M&As on human resources issues such as cultural differences (Buono, Bowditch and Lewis, 1985); addressing stress (Marks and Mirvis, 1985); structure (Mirvis, 1985); human resources policies (Profusek and Leavitt, 1984); and employees' reactions (Wishard, 1985). However, much of the information on M&As and their impact is anecdotal or unrelated to a theory and cannot be applied broadly (Sinetar, 1981). Moreover, the methodology used lacks appropriateness (Marks, 1982), and there is little in the way of conceptual framework or theory that differentiates M&As and how they affect HR issues (Shanley, 1988). In addition to this, researchers have found that M&As create uncertainty and change for people and, (if not managed appropriately) they could cause dysfunctional individual and organisational results (Schwieger, et al, 1998). Therefore, there is a need for more systematic investigation and better understanding of the impact of M&As on HR issues.

From the above discussion, it could be noted that the financial and legal issues are overestimated, while HR aspects are underestimated as success factors in the M&A process. This study will examine the importance of HR and cultural issues as critical success factors in M&As to realise strategic value, competitive advantage and desirable results.

1.2 MERGERS AND ACQUISITIONS

1.2.1 DEFINITION

This research has used the term, "failure" to indicate unsuccessful M&As. However, unsuccessful could be confusion term. A clear definition of failure has been not identified for 30 years. For instance, during the last 30 years, scholars have published hundreds studies of post-merger financial performance, and few have defined "failure" or, conversely, "success" in exactly the same way (Lajoux, 1998). When defining the term failure?. According to Lajoux (1998), reported that failure is defined in extreme terms, such as "the eventual liquidation or sale of the unit" failure rates are low - under 20 percent. However, when failure is defined as an inability to reach certain financial goals, such as synergy effects or growth in net income, reported failure rates can be high - up to 80 percent. In the study, failure indicates the inability of mergers to live up to specific financial performance.

Secondly, The term's mergers, acquisitions, and take-over are sometimes used interchangeably to indicate the same thing. However, there is an important difference among them:

I. Merger: involves two or more companies combining together from which a third company emerges. The shareholders of each company become shareholders in the new one (Campbell, D., et al, 1999).

II. Acquisition: involves two or more companies in which the buyer (acquiring) acquires the assets and liabilities of the seller (acquired) in exchange for stock or cash. The shareholders of the target (acquired) cease to be owners of the enlarged company unless payment to the shareholders is paid partly in shares in the acquiring company (Campbell, D., et al, 1999).

III. Willingness differentiates acquisition from take-over, when the acquiring company is un-welcomed by the directors of the acquired (target) company; in this case the term hostile take-over describes the deal (Alarfaj, H., 1997).

Mergers and acquisitions classified by industrial relationships into:

I. A horizontal merger or acquisition (M&A) involves companies that are engaged principally in the same industry.

II. A vertical M&A involves either backward vertical integration in which a company merges with or acquires a supplier, or forward vertical integration in which a company combines with a customer.

III. A conglomerate M&A can be defined as the unification of companies with no apparent similarities in producing or marketing activities (Reid, 1968; Glueck, 1980; and Wahid, 1995).

This study uses the terms mergers and acquisitions interchangeably to indicate the same thing.

1.2.2 EFFECTS

M&A can be complicated and merging two different cultures can be chaotic. M&As and rumours associated with them often cause concerns for employees because of the uncertainty and insecurity that is involved in M&A. This will create considerable stress, fear, anxiety and frustration amongst employees. In other words, employees' productivity and commitment to the merging or acquiring company will be decreased (Schwieger, D., and Ivancevich, J., 1985). Moreover, Mergers/acquisitions, often involve some reduction in workforce (Leana and Feldman, 1989), and change in personnel policies, company systems, medical plans, pension and compensation systems (Ferracone, 1987). These issues must be managed effectively in order to ensure the success of mergers and acquisitions in achieving their goals.

1.2.2 CRITICAL SUCCESS FACTORS

Based on mergers/acquisitions literature, the following factors are key for the success of any mergers/acquisitions:

I. First, effective communication within and between the companies involved (Napier, N., and et al, 1989; Augustine, N., 1997; Schwieger, D., and Denisi, A, 1991).

II. Second, systematic investigation and better understanding of the impact of M&As on employees (Napier, N., 1989; Schwieger, D., and Ivancevich, J., 1985; Schwieger, D., Csiszar, E., and Napier, N, 1998).

III. Third, great consideration should be given to the compatibility of the culture and corporate structure of the two companies (Franck, G., 1990; Buono, A., and et al, 1985).

1.3 THE SIGNIFICANCE OF THE STUDY

The importance of the study comes from the importance of the topic itself (mergers/acquisitions, human resource and culture factors). The importance of mergers and acquisitions could emerge from the huge amount of investment required (the global value of M&As has risen rapidly from £60 billion in 1984 to £355 million in 1990, Cartwright; Cooper, 1996). However, the lives of millions of employees would be affected by such strategies; if not by laying them off, their working habits would change (Levinson, 1970). A number of studies show the importance of financial and economic factors to the success of M&As. although, explanations of mergers and acquisition failures are increasingly being recognised through realising that what has happened to the employees involved, and their organisational culture cannot be separated from what has happened in the organisation (Cartwright and Cooper 1996). The main aim of merging and acquiring new firms is usually to improve overall performance (Lubatkin, 1983) by achieving a synergistic effect (Cartwright and Cooper, 1993a; Hovers, 1971). In turn, increasing competitive advantage (Porter, 1985; Weber, 1996). However, recent research indicates that these M&As have a negative impact on economic performance of the new entity (Cartwright and Cooper, 1993a; 1993b; Marks, 1999; Tetenpaun, 1999). It is estimated that their success rate ranges from 20-60 percent (British institute of management, 1986; Hunt, 1988; Marks, 1988; Weber, 1996). Although M&As are usually extremely well planned in terms of the financial and legal aspect, the conclusion that has to be drawn is that these poor results have come to be attributed to poor human resource management and planning. Moreover, recent studies have shown evidence of the importance of human resource as an influential factor in mergers and acquisitions. Hubbard (1999), reported that managing employee expectations by telling employees about their future, and then implementing the change as communicated in a professional and fair manner are both extremely critical for the success of acquisitions.

The discussion above clearly indicates the importance of human resource and culture elements as critical success factors for mergers and acquisitions. However, the human aspects of the phenomenon have received relatively little attention. In fact, those who initiate the merger decision largely ignore "people" as being a soft issue.

This study, therefore, hopefully would contribute to the mergers and acquisition literature by shedding some light on the human resource and cultural components as critical factors in the success of merger and acquisition strategies. This study also tries to provide greater emphasis to human and culture factors as a critical for merging/acquiring companies to realise sustainable competitive advantage, which has been somewhat, overlooked in many prior studies.

The study uses a conceptual framework and adopts the model that has been developed by Pettigrew and Whipp (1991) with some modifications to serve the purpose of the study. The emphasis of the study is given to human and culture components and environmental factors are incorporated in the model as important factors in the success of mergers and acquisitions. This study aims to provide the complete picture about how human resource, culture and environmental forces interact together and manage in a way that could result in the success of merger and acquisition strategies. According to my knowledge, no study (up until now) has employed such comprehensive framework in the context of mergers and acquisitions.

On the methodology side, the design of the study is comparative. In other words, two questionnaires have been constructed for two groups: merging companies (experiment group) and non-merging companies (control group). The study surveys top managers as well as middle managers and collects their points of view for each group. The methodology, which was used in the context of mergers and acquisitions, lacks appropriateness. Marks (1982) examines the methodological weaknesses in the merger and acquisition areas. He stresses that there has been an ongoing trend to ignore the employees experience of mergers and acquisitions in most survey design studies. Unfortunately, this trend still exists, as seen in a study published by Schweiger and Weber (1989). Therefore, by designing a comparative study and by taking the points of view of both top and middle managers, hopefully, this study would fill part of the gap that exists within the mergers and acquisitions methodological areas.

Finally, the majority of Saudi firms are small and medium size, this will lessen their ability to stand head to head against giant companies from developed countries (US, UK, etc.). Therefore, Saudi companies could adopt merger and acquisition strategies as an appropriate solution to face the business challenge. However, most Saudi firms are reluctant to take such steps because of lacking the appropriate experience, knowledge, and confidence to pursue such strategies.

Furthermore, few studies regarding M&As have been conducted in the Saudi market, and no studies have been undertaken in Saudi Arabia that relates human resource and culture issues to the success of M&As. Moreover, the non-existence of a clear process and mechanism to facilitate mergers and acquisition activities is a reason for the infrequency of M&As in the Saudi market. Therefore, this study hopefully will provide a body of knowledge and information to the strategic management literature regarding mergers and acquisitions in the context of Saudi Arabia. The study framework, which has been developed and tested empirically in the context of Saudi Arabia, could be used as guidelines for Saudi companies that intend to pursue mergers and acquisitions both inside and outside of Saudi Arabia

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1.4 CONCEPTUAL FRAMEWORK OF THE STUDY

Pettigrew and Whipp (1991) have developed an effective conceptual framework that examines how companies manage change for achieving sustainable competitive advantage. This model captures the dynamic nature of the business environment that is prevailing nowadays. It recognises that strategic change should be regarded as a continuous process that occurs in a given environment (Pettigrew, 1985b). Five interrelated factors comprise the model (Pettigrew, Whipp, 1991):

I. <u>Environmental assessment,</u> a firm has to be an open learning system in order to comprehend its external competitive world.
II. <u>Leading change,</u> there are no universal rules that should be followed to lead change. The reverse is true leadership is acutely context sensitive.
III. <u>Linking strategic and operational change,</u> the strategic change process involves both intentional and emergent characters.
IV. <u>Human resources (HR) as assets and liabilities,</u> HR relates to the total set of knowledge, skills and attitudes that firms need to compete.
V. <u>Coherence in the management of change</u>

This study adopted this framework with some modifications to serve the purpose of the study. This study focuses on merger and acquisition strategies as a way to confront business challenges, so the term "strategic change through M&As" in the frameworks replaces "linking strategic and operational change". Moreover, mergers and acquisitions (M&As) often entail huge change and investment, so one single individual (chief executive) is not able to initialise and manage this magnitude of change and investment. Therefore, "mechanism to manage merger/acquisition process" will be added to the framework to serve this purpose and replace "leading change". Furthermore, "success of mergers and acquisitions" will be placed in the centre of the framework to reflect that the success cannot be attributed to any one factor, but that it results in the continuous interaction of the five central factors as indicated by arrows in figure 1.1 below.

This model helps to map out the general and competitive environment in the merger/acquisition context, and examines how strategic change through mergers and acquisitions could be managed and implemented successfully within the environment in order to obtain a competitive advantage in the marketplace.

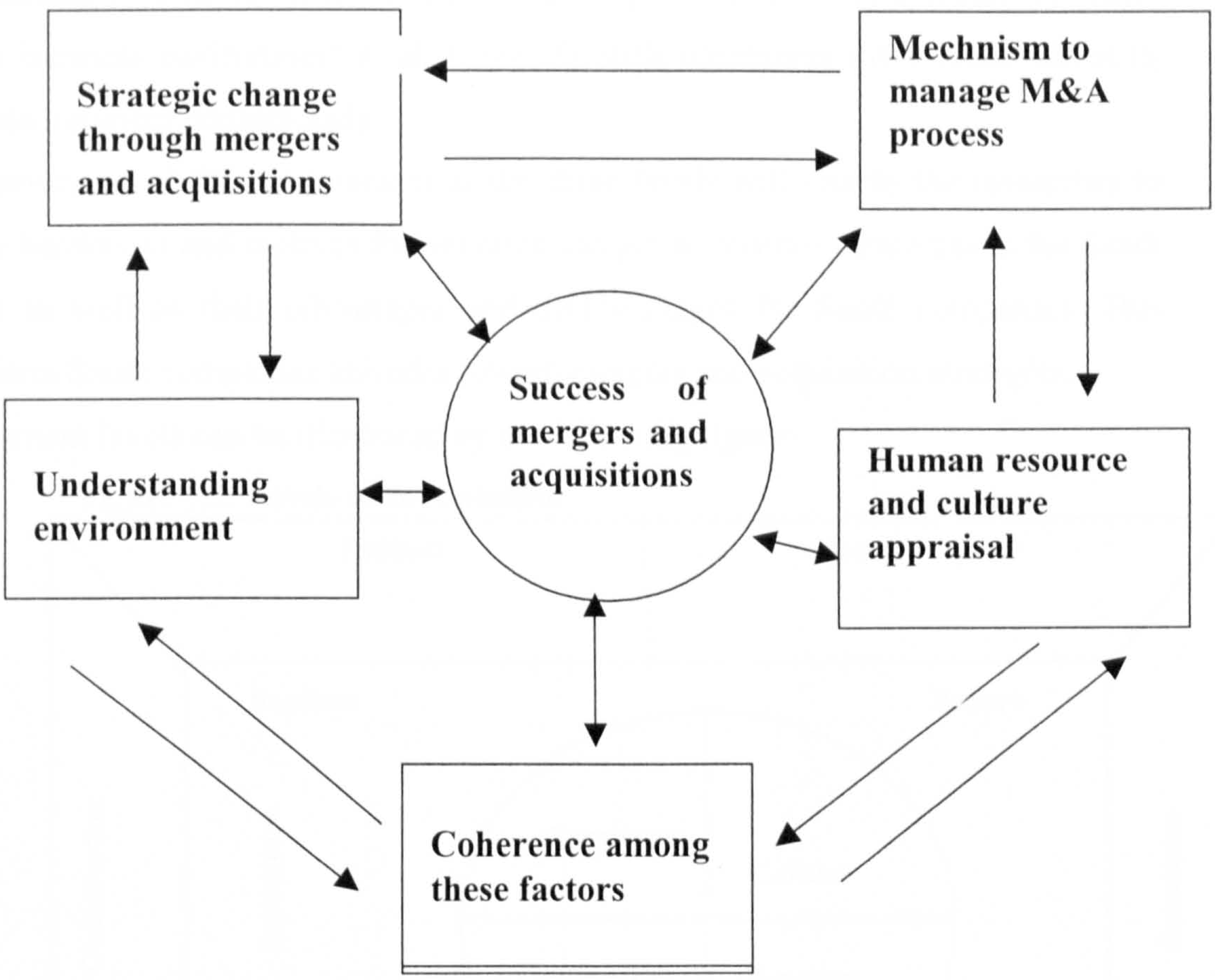
The five forces below constitute the following Framework:

I. Understanding the business environment.
II. Strategic change through M&As.
III. Mechanism of managing merger/acquisition process.
IV. Human resources and cultural appraisal.
V. Coherence of the systems and subsystems involved

The way that these interlinked forces are implemented and managed could result in the success or failure of the M&A.

These factors can be depicted as follows:

Figure 1.1: Mergers/acquisition and the central factors for their success.



The key characteristic of the model is its interrelatedness. In other words, there is no single factor among the five that could be attributed to the success of managing strategic change.

The following section will explain briefly these factors.

I. Understanding the environment. (chapter 2 and 4).

Three levels of environment will be recognised:

a) The internal environment involves the company's functions, structure, capabilities, employees and culture.

b) The competitive environment, This level will be centred on the Porterian industry model that is represented by the five competitive forces (Porter, 1980): Threat of new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products, and rivalry among existing firms.

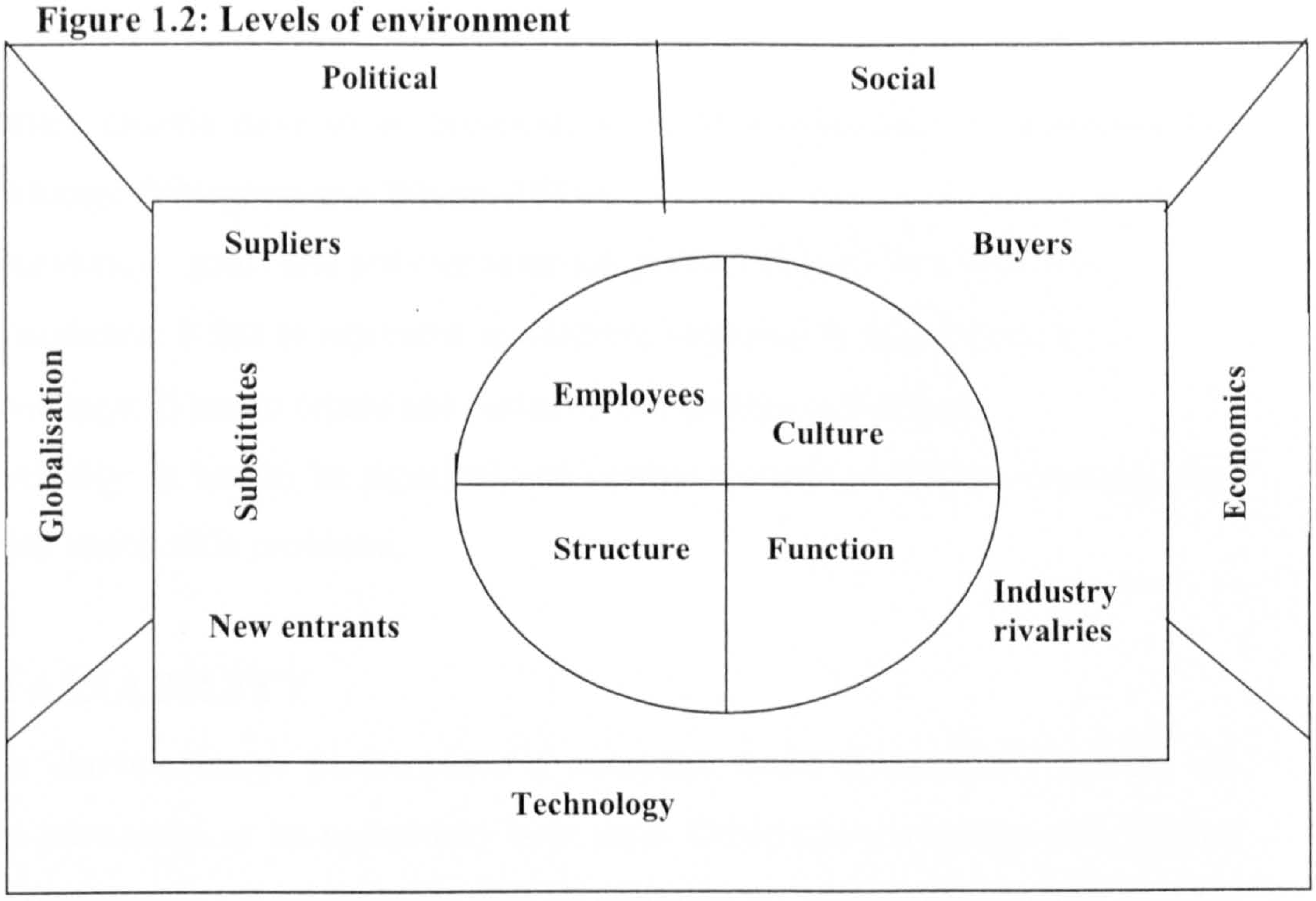
c) The macro-environment, this involves social, political, economical, technological and global environments.

Understanding the business environment means that a company has to become an open learning system. In other words, it is the responsibility of the company to assess its own business environment at all levels, through processing information about its entire environment continuously.

The assessment of the environment at the three levels will enable the researcher to identify barriers to and motives for pursuing merger/acquisition strategies in the Saudi context as well as their advantages and disadvantages for Saudi companies. This could form Saudi companies attitudes toward mergers and acquisition strategies.

Environment levels can be illustrated by the following figure:

Figure 1.2: Levels of environment



II. Strategic change through mergers and acquisitions could enable Saudi companies to restructure their activities to face the current business challenges (chapter 2, 3).

III. Mechanisms to manage merger/acquisition process. Mergers/acquisitions involve huge changes for the organisations involved and the way they function. Four essential factors should be recognised and implemented well in the purpose of increasing the success of merger/acquisition strategies: (a) integration strategy; (b) communication media and plan; (c) perceived justice; and (d) coping programmes. (Chapter 6).

IV. Human resources and cultural issues that are associated with M&As such as cultural clashes and shocks, stress, anxiety and frustration among employees. In addition to the change in personnel policies, pensions, medical and compensation systems are most likely associated with M&As. All these issues must be managed effectively to ensure the success of the merger/acquisition in order to achieve its goal (chapter: 2, 3, and 5).

V. Coherence of the systems and subsystems involved (chapter 4).

Coherence can be defined as the ability to hold the organisation together while simultaneously reshaping it. Its requirements arise from the implications of the other four forces.

Four important criteria have to be presented to achieve coherence in managing the process of change (Pittegrew and Whipp, 1991):

a) Consistency: goals and policies must not present mutual inconsistency.
b) Consonance: It has to represent an adaptive response to the environment.
c) Advantage: It has to create and maintain competitive advantage.
d) Feasibility: It has to be practical and neither overtax available resources nor create unsolvable problems.

1.5 SUSTAINABILITY

To achieve above-average performance a company must successfully sustain its competitive advantage or its superiority over time. Competitive strategy will lead to superior performance if a company is able to maintain its superiority against erosion and imitation for a long period of time (Porter, 1985). Change through merger and acquisition strategies could be a source of sustainable competitive advantage if teamwork in the merging company manages human resources and cultural issues successfully. This is because the effective way that a merging company handles HR and cultural issues associated with mergers and acquisitions, are difficult to be perceived or observed by competitors which makes it difficult to be imitated. Namely, the unique way of managing HR and cultural issues associated with M&As could lead a merging company to enjoy sustainable above-average performance, since the uniqueness of handling HR and cultural issues is not subject to imitation.

1.6 RESEARCH QUESTIONS AND PLAN

This study seeks to examine human and culture factors as well as environmental forces in the context of mergers and acquisitions. More specifically, what is the relationship between the success or failure of M&As, human, culture, and environmental factors? Although environmental forces have been investigated in this study as important factor in the success of M&As, greater emphasis is given to human and culture factors. Human factors are referred to as follow (1) procedural justice (2) coping programmes (3) communication plans (4) integration approach.

These four elements represent the mechanism by which mergers and acquisitions are managed. Environmental factors are referred to as follows: (1) understanding the environment (general and competitive) (2) competitive advantage (3) the external part of coherence.

The study's objectives would be achieved through answering the following specific questions:

1. What are the relationships between human resources and cultural components and the merging company's performance (success)?
2. What are the relationships between environmental forces and the merging company's performance?
3. What are the influential factors in the success or failure of merger/acquisition strategies in the context of Saudi Arabia?
4. Could merger and acquisition strategies be appropriate for a Saudi company to gain and sustain competitive advantage? How?

Due to the limited literature existing with regard to mergers and acquisitions activities in the context of the Saudi market, (and to achieve the research objectives) it is important to investigate issues related to the mentioned objectives in countries other than Saudi Arabia, (which have experience of M&A issues) such as the US and the UK. An intensive literature review of the research related to mergers/acquisitions in developed countries will be conducted. This will help the researcher to investigate, theoretically, the reasons for the increase in the rate of mergers/acquisitions failures, and identify the success factors, leading merger/acquisition and, in turn, to realise competitive advantage. Moreover, the preliminary empirical study in Saudi context has been conducted through interviewing number of merging company's executives as well as investigating related documents. At this stage the researcher is able to develop more of an understanding of the topic under investigation in developed and developing (Saudi Arabia) country. Then, researcher has also developed and constructed a study framework. This model has been tested empirically in the context of the Saudi market.

Because of the limited number of merger/acquisition cases in Saudi Arabia, comparative design (merging against non-merging companies) has been developed for this study. This helps to provide clarity to the analysis and overcome the limited number of sample available in Saudi market.

1.7 THE STUDY'S PRESENTATION FORMAT

There are eleven chapters within this study. This introductory chapter explains the basic theoretical consideration and definition of mergers and acquisitions in addition to the nature of the research problem and questions. I also explain the significance of the study and its conceptual framework.

Chapter 2 involves the reviewing of the socio-political and economic climate of Saudi Arabia. This provides a clear picture about Saudi culture and the business environment where mergers and acquisitions are taking place.

Chapter 3 provides a detailed review of the following issues: merger/acquisition trends, merger/acquisition motives and merger/acquisition sequence with the emphasis on human and culture implications.

Chapter 4 relates to the business environment and sustained competitive advantage in the context of merger/acquisition. This chapter provides a detailed review of businesses external environment dimensions, merger/acquisition's environmental uncertainty, the components of external environment, organisation coherence and sustain competitive advantage through market position approach and resource-based approach.

Chapter 5 presents a critical appraisal of the salient literature relating to human resources and culture components in the context of mergers and acquisitions. This chapter provides a detailed description of the impact of culture compatibility and difference on the success of M&As as well as the influence of mergers and acquisitions on human resource.

Chapter 6 identifies the mechanism by which human resources and culture differences are managed and implemented in the context of merger/acquisition process as well as explaining the outcomes of such strategies. This chapter offers a detailed description of procedural justice, integration approach, communication plan and media, coping programmes, the organisation performance and the reactions of the parties involved in merger/acquisition namely employees (regarding commitment and trust).

Chapter 7 explains the methodology and design used in this study. It shows the proposed methods for data collection, sample selection process, research setting, study questionnaire, pilot work, and the data analysis techniques employed. The rationale of selected methods or techniques is also provided.

Chapter 8 looks at the analysis of reliability and validity of the study's questionnaires and descriptive findings. This chapter presents a detailed analysis of the response rate, reliability and validity using factor analysis and Cronbach's Alpha, in addition to descriptive results-company characteristics and managerial characteristics.

Chapter 9 investigates human resource, culture, and environmental factors as success factors in the context of merger/acquisition using logistic regression analysis. Results and narrower interpretation are also included. This chapter is based on comparative analysis between merging and non-merging companies, and two points of views between top and middle management.

Chapter 10 presents the investigation and analysis of interrelationships between the study's variables as well as human resource, culture, and environmental forces as sustainable competitive advantage in the context of mergers and acquisitions. This chapter offers a narrow interpretation of the results.

Chapter 11 devote itself to the discussion and conclusion. It discusses the results obtained in the two previous analytical chapters. The conclusions of the study will be discussed in this chapter. The implications of the study results for researchers, management and government will be also provided. This study finally discussed the limitations of the research and made suggestions for future studies.

Chapter 2

2. SAUDI ARABIA CONTEXT

2.1 INTRODUCTION

This chapter will provide an introduction to the Saudi Arabian context, and to the business environment as well as merger/acquisition in particular. This chapter will also discuss the culture of Saudi Arabia, which has a great influence on the culture of organisations that operate in such context.

The kingdom of Saudi Arabia, which was founded by king Abdul Aziz Al-Saud in 1932, has been transformed beyond recognition over the past sixty years. The year 1970 marked a new era in the history of development in Saudi Arabia, where the first five-year Development Plan (1970-1975) was approved. In 1973, a sharp increase of revenues pertaining from oil enabled the Saudi government to increase its spending on the development of the country's economical, political and social policies. Throughout the past sixty years, the Saudi's government and society have remained stable and true to their culture and beliefs. This attachment to traditional values and principles has allowed the country through six decades of rapid change to develop so far in so little time.

Moreover, Saudi Arabia will no longer be content to only copy or borrow western technology to further its development. Saudis are increasingly expressing a desire to mould western know-how and technology to adapt to Saudi's needs and priorities. Many have often doubted the kingdom's ability to develop in a short period of time its modern industrial society, given the constrained of limited infrastructure, the small pool of skilled labour and only a single exportable commodity. However, such sceptics have been dissipated since the first development plan in 1970 has been fulfilled. The development plans have emphasized advancement of the industrial and service sectors as being the route to economic growth since 1985. The aim of such an attitude is to diversify the sources of national income and reduce the excessive dependence on oil.

Nowadays, the Saudi market has become relatively large and lucrative, as the population has increased dramatically during the last four decades and the purchasing power of Saudis is high as well as enjoying the stability of their government. Moreover, the economic system of Saud Arabia has been based on the principles of free enterprise. Saudi Arabia has joined the World Trade Organisation which liberalised its economy and opened its market to the free flow of capital, goods and services on a reciprocal basis. This has encouraged foreign companies to not only to export to such lucrative market as Saudi Arabia but they also realise that the best way to expand their share in Saudi market is to establish a presence in the Kingdom through alliances, joint ventures, or merger/acquisition. However, Saudi companies realise the threats as well as opportunities that arise from liberalising Saudi's economy and the openness of its market to foreign companies. Therefore, an increasing number of Saudi companies have pursued merger/acquisition strategies as a quick way to face the threats of invading foreign companies and have seized local opportunities and entered the global market.

In order to cover the context of Saudi Arabia, this chapter has been divided into four sections: the first section will be devoted to the social and cultural aspects of Saudi Arabia. The second section will present Saudi's economic characteristics which discussing the influence of Saudi Arabia joining the World Trade Organisation (WTO) on its economic. The third section will present a review to the structure and characteristics of Saudi's labour market as well as the rules and regulations that control such a market. The fourth section shows merger/acquisitions in the context of Saudi Arabia.

2.2 THE SOCIAL AND CULTURAL ASPECTS OF SAUDI ARABIA

The companies that have been studied (whether merging or non-merging) represent only a small part of the larger society, and any particular company might be viewed as a microcosm of the society in which it is found. In other words, societal culture represents the broader culture in which companies reside and operate. According to Fairholm (1994), an analysis of organisational cultures should begin with "an understanding of the larger national culture" (p. 24). Furthermore, Ott (1989) and Sathe (1985) consider social culture as a major source for organisational culture. Societal culture is a complex phenomenon, because it is " ... not one thing but a complex series of activities interrelated in many ways, activities with origins deeply buried in the past" (Hall, 1990: p.57). Therefore, for better understanding of the organisational culture in Saudi Arabia, one should have insight into the society itself and learn about its people, history, geography, religion, politics, economy, bureaucracy, etc., which reflect the national culture of that society. However, due to the limited time and resources available, the researcher has to choose what he considers to be an important reflection of the culture of Saudi Arabia that relates to the study.

According to Al-Awaji (1971), the Saudi social-value system is based on three major subsystems: (1) the religion, (2) the family and kinship, and (3) Traditional. Two of these subsystems will be discussed in some detail: religion and family, and the other will be mentioned as a combination of the two.

2.2.1 RELIGION

Saudi Arabia is the birthplace of Islam and almost all Saudis are Muslims. Shariah (Islamic law) is the basic law and the legal system of the Kingdom of Saudi Arabia. It is the law of Islam and represents a complete programme governing the sovereign every day living and possesses a dynamic code entirely independent of any environment. The Shariah derive from the Holy Quran and the teachings of the prophet Mohammed (Peace be upon him) called the Sunna and the Hadiths. All rules and regulations of the government of Saudi Arabia must be compatible with the Shariah. Thus, Islam is considered as "the source of political, legitimacy, the judicial system, and the moral code of the Saudi's society. It is the primary political and social frame of reference" (Al-Awaji, 1970, p.67). Islam, in Saudi Arabia, is the source of all legal and political acts. It is not "just a religion" it is a way of living (Nixon, 1992). Islam brought to Arabia an ordered society; that is man's social, spiritual, political, and economic status was clearly spelled out in the *Holy Quran.* For instance, the Quran provides specific guidelines in reference to economics: "Oh you who believe, do not forbid ourselves the good things which God made lawful to you and do not exceed the limits". The Quran forbids and condemns all unearned income such as usury and gambling. The Quran specifically states: "God has permitted trading and forbidden taking interest" (The Cow 2: verse 275).

Moreover, in reference to education and knowledge, the Holy Quran and Hadiths have been favourably influential. The importance of learning is emphasised at various points in the Quran: "God will raise up in rank those of you who believe and have been given Knowledge" (Mojadallah 58, verse 11). In addition, the importance of seeking knowledge has been emphasised by prophet Mohammad (Peace be upon him): "Whoever takes a road in a search of knowledge, God will ease for him a way to paradise...to seek knowledge is obligatory on every Muslim, Male and female". The continuous search for knowledge is echoed in Saudi Arabia's educational programmes. Education, while not compulsory, is available and free of charge to all citizens of the Kingdom.

Furthermore, Islam is concerned about work as it is concerned about knowledge. According to Al-Ajlani, "Knowledge and work are considered the two major elements making up the Muslim's personality and Muslim society" (1972, p. 14). Islam does not limit the ways the Muslim can pursue his livelihood so long as the work is done with honesty, quality, and integrity. It has been stated in the holy Quran that: "the best of whom you hire is the strong and honest one" (AlQasas, 28, verse 26). The worker should work as best as possible because this pleases God. Prophet Mohammad (Peace be upon him) said "It is God's pleasure for any one of you who attempt to do some work to do it perfectly" (Hadiths).

Saudi Arabia's flag incorporates symbolism and reveals much about Saudi culture and its Islamic values. The flag colour is regulated to be green (indicating potential, fertility, and prosperity), and the profession of faith (there is no god but Allah and Mohammed is his Messenger) is in the middle above an unsheathed sword. The sword is intended to convey bravery and power, and its location on the flag further implies that the sword will be used in the defence of Islam (Saudi Arabia Ministry of information, 1992, p.24). The flag is never to be flown at half-mast because it bears the first pillar of Islam, which is the "Shahadah" "there is no god but Allah and Mohammad is his Messenger." Thus, the placement of this creed on the flag emphasizes the position of religion at the forefront of Saudi society.

Furthermore, the Arabic language is a very important aspect of Saudi as well as the Arabian culture. The Arabic language reflects the Arab's mentality, their way of thinking, how they perceive their own world and other people, etc. After the rise of Islam, the Arabic language became a source of pride for the Arabic speaking, since the *Holy Quran* has been revealed in Arabic language. In short, Islam, which is adhered to by almost all Saudis, as well as by the majority of the expatriate population, pervades all aspect of life of Saudis, including personal goals and social norms (Leonidou, 1996). In other words, Islam has played vital role in socio-cultural life in Saudi Arabia (Abdulgader and Bureay, 1993).

The Islamic management perspective characterises balances the materialistic, the spiritual and psychological well being of the individuals and groups in the society (Abdulgader and Bureay, 1993). Thus, Islam supports rivalry that helps and benefits both individuals and the society as a whole. Competition is negative is unacceptable in the Islamic law (Abuzunaid, 1994). Islam also forbids unfair competition that is based on monopolies (Alhabshi, 1993). Furthermore, Islam teaches its followers that the accumulation of wealth should not be the main objective in their lives. Human beings were created to worship Allah almighty (God). Gaining wealth and spending it on its sources as Islamic law determined, is considered as worship in Islam (Al-arfaj, 1997). Some examples of forbidden sources of wealth in Islam are any projects related to alcoholic drink, adultery, stealing, gambling, monopoly and money interests (Reba) (Alhabshi, 1993; Abuznaid, 1994).

The Islamic system encourages and supports Muslims to work hard to gain wealth and spend it on its sources as determined by Islamic law. However, some Saudis misunderstood Islamic values and teachings such as of working hard to achieve wealth from the right sources and means and spending it in the correct path as a method of worship. Instead they accept an easy life, the status quo, and laziness in order to avoid the wealth that is needed to be justified on the day of judgement. Under the influence of Islamic values and beliefs, the majority of Saudis prefer to work in a place where they can practise their Islamic rituals easily, and in the organisational activities that do not contradict with Islamic law. For instance, most bank activities often operate in a way against the instructions of Islamic law since the system is based on the money interests, which is prohibited in Islamic religion. This influences the attractiveness of banks for Saudis to work in. In other words, such banks could face shortage of labour supply in Saudi Arabia in the future.

2.2.2 FAMILY AND KINSHIP

The second source and determinant of the Saudi social values is the family, as the primary organisation, and the ken system. The Arab family, not the individual, is the basic social unit. "It is the centre of all loyalties, obligations, and status of its members" (Al-Awaji, 1971, p. 70). According to Sultan (1988), Saudi society "differs largely from Western and Eastern societies in that it is an Arabian and Islamic community which considers the family unit as the main social structure to which they are loyal" (p. 119). The Saudis are tribal people with communal bonds. The Saudi

Society believes in the sanctity of the family and the inviolability of the home (Alsaeeri, 1993). Walepole et al., (1971) stated that the family is crucial to the life of the individual Arab because a person without a family to support him is not regarded as reliable in such society.

The basis of Saudi's social organisation is the extended family, which is typically composed of father, mother, their children, all brothers generation, their wives and offspring, grandparents, possibly elderly aunts, uncles and cousins (Al-Sweel et al., 1993). Loyalty to one's family is paramount, and one is always expected to support one's kin before any outsider. Al-Awaji (1971, p.70) observed that: "the individual is responsible for the well-being of his family...He carries out his acts in terms of his family, and hence, his behaviour in various life-situations is mainly an expression of his family patterns. Furthermore, the individual's wider contacts come through the family and its extensions (e.g., kin-groups, clan or tribe)". These interdependences among family's members and the adherence to the group's norms and values provide mutual protection, psychological support and a type of economic security (Field, 1984).

Another form of social organisation in Saudi Arabia is the tribal grouping. Over the years this tribal system has gradually evolved into an elaborate social class system and each tries to support and protect their members (rugh, 1973). The existence of family, as the basic unit of social structure in Saudi Arabia and the rest of Arab society, is derived from human nature. Arab sociologist Ibn Khaldun realised kinship ties as a driving force in the formation of the society culture. He used the term "asabiyah" (a word having its roots in the biological term of "nerve") to indicate the energy/spirit that blood relationship (kinship) possesses to unite a group or society to enable it to function and develop. He saw it at its most basic "in the group ties in family and tribe..." (Simon, 1978, p. 70), it encompasses such concept as loyalty, cohesion, spirit, feeling, bonds, inclusion and affiliation. Ibn Khaldun noted that "social solidarity is founded only in groups related by blood ties. This is because blood ties has a force binding members of a tribe or family together, which make them concerned with any injury inflicted on their next of kin" (Issawi, 1987, P.103).

Ibn Khaldun also argued that: "royal authority must be build upon two foundations: the first is group feeling "asabiyah", who's expression can be found in soldiers. The second is the "money" (Simon, 1978, p.82). Al-Salim (1996) interpreted these two foundations to indicate that the political power leading to the rise of the state rest on the psychological forces binding these people into a cohesive unit, and possesses the economic forces that enable a nation to grow and prosper, (referred to as "Money"). Group solidarity considers the basis for political power in all of the governments that have governed the Arabian Peninsula from the early days of the Prophet Mohammed (Peace be upon him) till the present day. In the case of Saudi Arabia (as noted by Nyrop, 1985, p. 30), King Abdulaziz built his empire by gaining the support of the strongest tribes and entering into more than 20 dynastic marriages to cement his political authority.

2.2.3 THE TRADITIONAL AS A WHOLE

In addition to religion and the family system, the traditions are considered a major source and determinant of social values. The system involves a combination of religious doctrines, family/tribal institutions, customs and norms, and have developed a sense of shame. Shame in Arabic word is called "ayb", which is traditionally considered to be degrading to a person and his family. It varies from one class to another and there are no set codes or clear-cut lines between what is ayb and what is not. It is something that you learn by socialising. For example, smoking cigarettes are considered a very shameful act in some groups, but it is not so in others.

Studies that have been conducted in the Saudi environment and cultures, which was uncovered certain behavioural patterns and attitudes common among Saudi employees. These were "seemingly lax attitudes in extending their best efforts in the job, favouritism perceived by employees among their superiors, absenteeism and tardiness at work" (Abualjadial, 1991, p.167). Furthermore, several studies signify that the Saudi bureaucracy suffers from many administrative problems and deficiencies (Al-Taweel, 1974; Al-Nimir and Palmer, 1982). These problems include inefficiency, over-centralisation of authority, overstaffing in the lower level of the administrative hierarchy, personalisation, red tape, immateriality of time, formalism, favouritism, nepotism, corruption, lack of coordination and duplication, and trained manpower shortage. It should be noted that such deficiencies and behaviours were common among Saudi employees in the public sector, yet in the private sector such behaviours and problems are less common. These deficiencies can be attributed to the period of boom that Saudi Arabia experienced after the discovery of oil and the escalation of oil prices. Saudis, by aspirating to seize the numerous opportunities available in Saudi Arabia and through the lack of awareness, many of them gave little attention to their work to free themselves to other responsibilities (their families and trading...). However, such deficient behaviours, which were common in the boom period, have been changing since the Saudi government started to reduce its spending that rationalised the Saudi economy. In other words, opportunities available in Saudi Arabia cannot be exploited easily, but such opportunities need knowledgeable and experience people.

In conclusion, the organisational culture cannot be understood without reference to the aspects of the wider national culture. National culture in which organisations operate is considered one of the most determinants of organisational cultures. An organisation cannot survive unless it adopts and acquire some of the beliefs, values, and assumptions of the national culture. There is no doubt that government ideology, policies, religion, the media and other institutions and individuals concerned with shaping opinion and beliefs play very important roles in Saudi's cultural creation and development (Morgan, 1990). Therefore, Islamic religion, family and kinship that have been discussed above in some detail as the most important determinants of the Saudi's values and beliefs provides insight into the Saudi culture that enable the reader to understand the culture of companies, which operate in the context of Saudi Arabia.

2.3 SAUDI'S ECONOMIC SITUATION

Three important issues will be discussed within this section in great detail: Saudi's economic trends, stock market, and the structure its internal economic.

2.3.1 ECONOMIC TRENDS

Forty years ago, the majority of Saudi population lived nomadic or semi-nomadic lives within a primitive economy. In this period, the main economic activities were subsistent farming, primitive manual industry, with livestock raising and serving the pilgrims of the holy places.

Since the oil discovery in 1970, Saudi Arabia has prospered in all aspects of life (economic, social and political). This brought about change in the Saudi lifestyle, behaviour, and thinking. During the oil boom (1970-1982), the aspiration and willingness of many Saudis, who may lack the skills and experiences needed, encoraged them to establish their own businesses (specifically small ones) without much planning or viable studies (Habib and Abdeen, 1987). The owners of these businesses achieved substantial profits during this period, not because they were doing an excellent job, but because the booming period generated several opportunities that were easy to be exploited (as well as the subsidies and protection that Saudi's government was provided to Saudi companies). This period created what I can call "management in the period of boom" or "management by luck", as they could obtain wealth without planning and organising effectively. This style of management prevailed amongst small and medium companies within Saudi Arabia in that period. Since 1983, the Saudi government has minimised subsidies and lowered government spending as well as policing the severe competition at home and abroad. These conditions have made many Saudi firms (especially small ones) to go either bankrupt or meagre profit. It is estimated that about 300 companies ceased trading in 1983 alone (Economical Gulf, 1984). AL-Olyan, (1985), who is well known in the field of business in Saudi Arabia, pointed out that "the large number of bankruptcies and businesses leaving during the recession of 1983 indicated that there were many defects in planning and management" p.22. Moreover, subsidies and protection to Saudi companies contributed to the inefficiencies and ineffectiveness of several firms, which are essential for competing globally (AL-arfaj, 1997). A large number of Saudi companies ceased to operate in the market as they failed to face business challenges that were posed by changing business conditions in the Saudi market, several still exists in the market with their primitive way of management (Management by luck). This style of management could present a barrier in pursuing mergers and acquisitions in the Saudi markets since managers who adopt this style:

I. Often don't recognise the importance of mergers and acquisitions to confront the business challenges.

II. Often lack the appropriate management skills, knowledge and experiences as well as the confidence to conduct M&As.

III. Are reluctant to pursue M&As since most of companies are family controlled and fear that they lose the control over their companies.

IV. Are relying on government protection and subsidies to build their success, this retards their initiatives and innovation that in turn leads to a decrease in their competitiveness in local and global market.

This could explain the infrequency of M&As in the Saudi Arabia.

It should be noted that not all small companies use this type of management, several small Saudi firms have evolved and prospered during and after boom period, and have managed their businesses successfully under the changing government and competitive conditions.

2.3.2 SAUDI ARABIA'S STOCK MARKET

The stock market is an essential pre-requisite for the financial and economic development of any country. Stock trading in Saudi Arabia began in 1954 as the Arabian Cement Company was made public and was followed by the privatisation of a number of electricity companies in the 1960s. The 1970s were a period of "Saudisation" of foreign banks operating in the kingdom. Between 1976 and 1986, 48 joint stock companies entered the Saudi Stock Market and were capitalised at about $20 billion. Because of the crisis of Souk AlManakh in Kuwait that occurred in 1982, concerns in the excessive speculation and volatility in the Saudi Stock market were raised. Therefore, the Saudi government placed all stock trading under the supervision and control of Saudi Arabian Monetary Agency (SAMA) in 1985. SAMA's objectives were to protect the market against the adverse effects of speculation and to develop it gradually into a mature market. Furthermore, the government wanted the stock market to develop in a manner that would contribute to the national development and was consistent with its policy of greater private sector participation.

SAMA faced a number of challenges in operating the stock market system: one of the challenges was that the trading process was cumbersome and inefficient as the contact system between sellers and buyers occurred by telephone and telex. The other challenge arose as nearly half of the transactions (by value) were being conducted outside of the official stock trading system. To meet the above challenges, the trading system underwent a number of modifications. In 1986, SAMA allowed banks to register share transfers themselves by simply stamping the back of the share certificate up to six times. In May 1987, SAMA established a trading floor that centralised trading under one roof with up-to-date market information. Bank brokers were brought together on the exchange floor to trade through an open auction system. In 1988, floor trading was terminated and SAMA initiated a state-of-the-art electronic share trading system. The existing stock trading system in the kingdom is called the Electronic Security Information System (ESIS), one of the most advanced in the world. This system provides electronic handling, including maintenance of accurate client information; release of bids and offers into the share market and execution of share transactions; delivery of sold shares and money payment through SAMA clearance etc.

2.3.3 STOCK MARKET PERFORMANCE

Table 2.1 shows that the official index of the National Centre for Financial and Economic Information (NCFEI) rose steadily, with a slight aberration in 1986, from 69.09 at the end of 1985 to 108.68 at the end of 1989. The NCFEI index fell by 9.8% in 1990 to 97.98 due to the decline in confidence caused by the Iraqi invasion of Kuwait. The market rallied following the crisis in 1991 as the NCFEI index rose by over 80% to reach 176.52. The stocks of the cement sector, which account for nearly 11% of the total market capitalisation of the listed companies, were boosted by the government's incentives to increase cement exports (e.g. 50% reduction in port charges and free access to warehouse facilities). As a result the NCFEI index of the Cement sector rose strongly by 30.4% in 1996.

Table 2.1: NCFEI domestic shares index by sectors (28 February 1985=100)

Year	NCFEI Index: all companies	Banking	Industries	Cement	Services	Electricity	Agriculture
28 Feb 1985	100	100	100	100	100	100	100
1985	69.09	68.92	79.17	75.59	69.00	70.04	84.80
1986	64.60	56.76	68.05	62.76	62.38	70.30	90.92
1987	78.06	83.83	94.15	59.54	70.43	81.66	116.18
1988	89.20	125.77	143.39	70.88	64.81	67.15	118.10
1989	108.68	218.51	163.11	98.31	61.34	575.10	112.27
1990	97.98	190.09	142.81	94.72	57.48	53.95	101,10
1991	176.52	427.62	186.77	138.27	117.59	59.23	136.21
1992	188.87	498.72	259.01	210.02	137.75	60.36	154.97
1993	179.33	491.30	222.11	193.34	124.32	62.62	110.19
1994	127.91	305.83	190.15	141.92	85.08	47.69	76.96
1995	137.08	328.0	250.33	137.50	68.38	42.69	68.68
1996	153.10	396.85	269.52	179.24	65.91	42.08	61.88

Source: NVCFEI-Ministry of Finance and National Economy.

2.3.3.1 THE STRUCTURE OF SAUDI STOCK MARKET

The Saudi Stock Market comprises of six sectors namely Banking, manufacturing industry, cement, services, electricity, and the agricultural sectors. Table 2.2 shows that the largest sector, in terms of assets and market capitalisation is the banking sector. At the end of 1996, it capitalised a share of 39% of the market total, and this sector accounted for 64% of the assets of the total number of listed companies. The second largest constituent in terms of market capitalisation is the manufacturing industry sector, capitalised 31% of the market total in 1996. The second largest constituent in terms of assets was electricity sector, which accounted for 17.1% of the total assets of the 70 listed companies.

Table 2.2: Saudi stock market activities (1985-1996)

Year	Number of listed companies	Market capitalisation (SR billion)	Value of trade shares (SR billion)	Number of shares trade (million)	Number of trade transactions
1985	44	76.2	0.76	3.94	7,842
1986	46	62.1	0.83	5.26	10,833
1987	51	74.4	1.69	12.01	23,267
1988	52	87.0	1.04	14.64	41,960
1989	54	107.3	3.36	15.27	110,030
1990	56	97.7	4.40	16.94	85,298
1991	58	179.9	8.53	30.76	90,559
1992	58	206.1	13.70	35.20	272,075
1993	64	197.1	17.36	60.31	319,582
1994	66	145.1	24.87	152.10	357,180
1995	69	153.4	23.23	116.62	291,742
1996	70	172.1	25.34	137.83	283,759

Source: Economics Department of National Commercial Bank

Of the total of 70 companies listed on the Saudi Stock Exchange the highest number are in services and industrial sectors with 16 companies each, followed by the banking sector (11 companies), electricity (10 companies), agricultural (9 companies), and cement (8 companies). The Saudi market is still generally considered to be under-valued, with average price earning (P/E) of 10.5 in 1996, compared to 22 for the Standard and Poor's 500 Index. Table 2.3 shows that the highest P/E ratios are found in the services sector, where several shares are overpriced. The lowest P/E ratios are in the banking and industrial sectors. The high earnings reported by companies in these two sectors during 1995-6 helped support higher share prices without rendering them overvalued during this period.

Table 2.3: Performance of the Saudi Stock Market over 10, 5, 3, and 1 year periods.

Sector	1985-1995 (10-year) %	1990-1995 (5-year) %	1992-1995 (3-year) %	1994-1995 (1-year) %
All sector	9.8	8.0	19.1	7.2
Banking	37.6	14.5	-11.4	7.3
Industry	21.6	15.1	-1.1	31.7
Cement	8.2	9.0	-11.5	-3.1
Services	-0.09	3.8	-16.8	-19.6
Electricity	-3.9	-4.0	-9.7	-10.1
Agricultural	-1.9	-6.4	-18.6	-10.8

Source: NCFEI-Ministry of Finance

During the 11 years of organised trading, the Saudi's stock market has not been able to achieve the desired level of success in mobilising capital given the potential that exists in the economy. At the end of 1995, total market capitalisation was 33.8% of GDP. Only 2% of the population invested in the market and a few investors held the majority of shares. The largest stock holdings were held by the government, founding owners, foreign partners and other investors who rarely, if ever, trade their shares. The number of listed companies rose from 44 in 1985 to 70 in 1995, which is arise of less than three companies per year.

2.3.3.2 WEAKNESSES IN THE SAUDI STOCK MARKET

The underlying weaknesses that retarded the Saudi stock market from achieving the desired level of success in mobilising the available capital, can be attributed to: firstly, the conservative listing requirements needed to apply in Saudi Stock Market. Companies that intend to apply for listing is time consuming and the criteria for acceptance are not transparent. Secondly, the average Saudi investor is inadequately informed on the equity market, and continues to have his investments concentrated in the real estate, bank deposits or other familiar instruments. Accordingly, there is a high concentration of share ownership, as only about 2% of the Saudi's national population owned shares. Furthermore, the limited supply of shares available for trading led the Saudi Stock Market to be very thin in relation to its market potential. Nearly 52.3% of the total shares issued by Saudi companies are held by entities that either do not trade their shares, or trade very little (the government, founding members, and foreign partners). In addition to this, Saudi businessmen prefer to manage their companies as private family concerns rather than as public-limited companies because of their desire to maintain control and confidentiality over their business affairs. Finally, monitoring and enforcement mechanisms in Saudi Stock Market are poor because the penalties used to deter stock price manipulation are ineffective (as an offender usually receives a warning such as asking him not to do it again).

The potential for new listings in Saudi Arabia is large. In 1996 there were around 7,216 companies operating in Saudi Arabia of which 4,178 were limited liability partnerships, who represent potential entrants to the stock market. There are also about 200 companies ready to join the stock market provided they are given the right incentives. To encourage such companies to participate in the stock market, listing requirements should be re-evaluated to make it easier for such companies to join. Moreover, family-owned companies should be supported to become public companies with the founding family retaining some stake, whilst the management of the company is passed on to professional managers. The monitoring and enforcement mechanism in the stock market should be effective to prevent any price manipulation. Further development of the Saudi Stock Market entails a strengthening of the role of brokers and market makers; accelerating the privatisation programmes; improving accounting and disclosure requirements, improving transparency and the availability of information needed by investors, and broadening the participation in the stock market by allowing expatriates living in Saudi Arabia to invest in Saudi shares.

In short, Saudi Stock Market is relatively small, yet it has been developing since 1986 in terms of trading volumes (see Table 2.1) and procedures improvement. The Saudi government is also active in accelerating privatisation programmes, where communication companies have been privatised, besides the number of public-owned companies intend to be privatised such as Saudi Airlines. Government shares in some companies Like SABIC (70% owned by government) will be sold to the public. This would help to enhance the effectiveness of the Saudi Stock Market as the number of listed companies in the market increase and the transparency and required information is available. In other words, the share price of a company would be a reflection on the decisions that have been made in that company. This, in turn, would enhance merger/acquisition strategies in Saudi Arabia, as the share price of a company should effectively represent the valuation of such companies.

2.3.4 THE STRUCTURE OF THE SAUDI ECONOMY

The structure of the Saudi economy can be demonstrated by focusing on two important components that formed the Saudi economy: The gross domestic product (GDP), and the government budget.

2.3.4.1 THE STRUCTURE OF THE GROSS DOMESTIC PRODUCT

Gross domestic product can be defined as all final products that have been produced within the boundary of a country during a specific time (usually one year) regardless of the nationality of producer. Thus, GNP of Saudi Arabia involves all products/services that are produced by Saudi's companies as well as non-Saudi companies operating within Saudi's boundary and excludes products/services that are produced by Saudi's companies, which operate outside Saudi's boundary (Al-Obeid and Atiah, 1994). Essential components that constitute Saudi' GNP are both the oil and non-oil sector.

i. Oil sector

This sector involves the production of crude oil, refinery and other related activities as well as petrochemical products that derive from crude oil. Growth in total GNP in Saudi Arabia is dominated by developments within the oil market. Oil provides the bulk of the kingdom's export earnings and budgetary revenues and accounts for around 45% of the GNP in 1990. Table 2.4 shows that the highest percentage of the GNP generated from oil sector during 1970-1980, where the sector's contribution ranges between 62.4% to 72.4% during this period. The non-oil sector contribution to the GNP ranges between 27.6%-37.6% during the same period. Therefore, we can say that Saudi's economy is primarily based on the oil sectors during 1970s. In other words, the specialisation degree in Saudi economy is very high and is often described as the "one commodity economy". This specialisation in one commodity (oil) contributed to the instability of the Saudi economy.

Table 2.4: The structure of Saudi gross national product (fixed prices to the year of 1984)

Year	Oil-sector		Non-oil sector		Gross national product	
	Million SR	%	Million SR	%	Million SR	%
1970	128087	71.7	50606	28.3	178693	100
1975	243917	72.4	92800	27.6	336717	100
1980	299624	62.4	180273	37.6	479897	100
1985	105204	32.8	215978	67.2	321182	100
1986	151303	42.0	209204	58.0	360507	100
1987	129525	37.5	216111	62.5	345636	100
1988	157843	41.8	219740	58.2	377583	100
1989	154796	40.9	223231	59.1	378027	100
1990	191410	45.2	232284	54.8	423694	100

Source: Ministry of Planning, Saudi Arabia, the accomplishment of development plans, facts and numbers (1970-1990) p.225

However, the contribution of the oil sectors to GNP has dropped gradually since 1982, which led the non-oil sector contribution to increase (see Table 2.4). Accordingly, the level of diversification in the Saudi economy was increasing during 1980s, and to some extent decreasing the dependence on the oil sector. This would have contributed to the reducing in the variability of the development of Saudi economy. It should be noticed that the increasing contribution of the non-oil sector in GNP, during the early of 1980s, has not totally attributed to the development of this sector, but it can be partly attributed to the contraction of the contribution of oil sector in the early 1980s due to the non-preferable variability in the international oil markets. It is not rational to be "one commodity economy", but it was important in the Saudi economy at the early stages of its development. This is because the natural resource (oil) faces many potential risks, such as the fluctuation of its price, the possibility of synthetic substitutes, and its slow yet sure depletion. The Saudi government, therefore, has emphasised economic diversification as a crucial fiscal policy in shifting towards productive investment and the development of a free market economy based on private rather than public enterprise. The diversification strategies have led to positive structural change of the Saudi economic base resulting in making marked progress in the agricultural sector and the creation of new heavy hydrocarbon-based industries. Thus, dependency on the oil sector has gradually eroded.

ii. Non-oil sector

This sector includes non-oil private and non-oil government sectors. The government sector primarily consists of government ministries, agencies, and public organisations. The government play a major role in the development of the country as a whole (Al-Awadh, 1996). Recently, Saudi Arabia has been pursuing a new development policy with main emphasis on industrialisation and economic diversification. Therefore, public sector led growth and over-dependence on oil are gradually giving a way to private sector initiatives and a build-up of a diversified production base (Azzam, 1993). The establishment of the Saudi development funds by the government is one way of supporting the private sector. The outstanding characteristic of the Saudi development funds is probably due to the absence of interest on the loans they extend to investors (the Saudi development funds were created to provide interest-free on medium and long-term loans). This phenomenon is probably unique in the world (ASBAR, 1999). The consequences of establishing development funds that provide interest-free loans can be summarised in the following:

I. Creating the appropriate climate for diversification of the economic base and increased effectiveness of the private sector. According to the Sixth development plan document (1995-2000), the Saudi government did succeed in diversifying economic base as attested to by the following indicators:

a) Growth of the non-oil gross domestic product, by more than four times in the period from 1969 to 1994 in fixed prices for 1989.

b) The contribution of the non-oil sector to the gross domestic product rose from 53% in 1969 to 67% in 1994.

c) The share of non-oil revenues in the total public revenues rose from about 16% in 1969 to about 22% in 1994.

d) The Saudi development process was successful in activating the role of the private sector as the volume of private annual investment rose from one billion in 1969 to about 46 billion Saudi Riyals in the last year of the fifth plan 1994.

e) The private sector contribution to the gross domestic product rose from 21% in 1975 to 45% in 1994.

f) The number of joint ventures (local/foreign) operating in 1993 reached 352 with a total capital of about 81.5 billion Saudi Riyals.

II. Providing channels for the flow of government subsidies and support. The natural channels selected by the government to provide the various types of support and subsidies are represented by the different development funds. Perhaps the most important indirect aid allocated by these funds is the interest-free loans to support private sector in the areas of agriculture, industry, and housing. The total amount of these subsidies reached 12.1 billion Saudi Riyals in 1984, these amounts decreased progressively to reach 6.2 billion Saudi Riyals in 1995. The government turned to the adoption of a rationalised spending policy after the relative progress achieved by the beneficiary economic sectors along with relative stability of the price level (Abdul Bassir, 1984; Ministry of planning, 1997; Saudi Arabian Monetary Agencies, 1997).

III. Contributing the development funds in fighting inflation successfully. The policy of combating the pressure of inflation involves short-term and long-term policies (Abdul Fadhil, 1985; Zaki, 1986). The most important of the Kingdom's short-term policies in fighting inflation consist in controlling the issue of notes and money supply, improving the efficiency of global demand management systems, control over prices and price components of basic goods and establishing a balance between prices and salaries. The long-term policies can be summed up as correcting the structural deficiencies of the national economy, diversifying the economic base in developing financial markets, and rationalising the government incentives and subsidies (ASBAR, 1999). The most important contributions of the development funds consist in achieving success of such policies in easing the problems suffered by the social classes most vulnerable to the pressure of inflation. They also played an important role in preparing the climate for the replacement of imported produced with domestic products along with the promotion of non-oil exports (agricultural and industrial sectors).

IV. Contributing to the preparation of the private sector in comping with the anticipated results of the Kingdom's accession to the WTO. More detail will be given as we discuss globalisation.

2.3.4.2 THE STRUCTURE OF THE GOVERNMENT'S BUDGET

The structure of the government's budget consists of two parts and these are: revenues and expenditures. We will discuss, in turn, the budget balance development, budget revenues and expenditure.

i. **Government budget balance**

Table 2.6 shows the development of the Saudi government budget during 1970-1988. We can see from Table 2.6 below that the Saudi government had a budget surplus during the oil booming period until 1982. Throughout this period both revenue and expenditure were on the increase. However, the budget has run a persistent deficit since 1983. The percentage of deficit to total government expenditure in 1986 reached 41.3%. In addition to this, the trend of Saudi government revenues and expenditures has been showing a declining tendency since 1983. The deficit has been accelerating until 1986.

Table 2.5: Government Budget by current prices (1970-1988)

	Revenues		Expenditures		Balance	
Year	**Million SR**	**Growth rate %**	**Million SR**	**Growth rate %**	**Million SR**	**Growth rate %**
1970	6626	41.6	6307	13.7	+ 319	+ 5
1975	97724	49.5	59184	121.1	+ 45500	+ 67.9
1980	279962	66.2	220763	26.1	+ 86300	+39.1
1983	161375	-23,3	241411	-7.8	-17211	-7.1
1984	131640	-16.9	227294	-5.8	- 40899	-18.0
1985	98613	-21.5	197031	-13.3	-50741	-25.8
1986	59699	-29.9	174709	-11.3	-72178	- 41.3
1987	67405	1.2	173527	-.7	-69715	- 40.0
1988	66552	.9	134850	-22.3	-30131	-24.3

Source: Saudi Arabia, Saudi Arabia Monetary agencies, annual report 1988, P.4.

The Saudi Government succeeded in reducing the deficit during the five-year period before Iraq invaded Kuwait in August 1990. Throughout the second half of the 1980s, the Saudi government cut its overall budget deficit by more than half, from over 20% of GNP to less than 10% (Ministry of Planning 1992). However, Saddam Hussein put an end to those achievements. The average budget deficit for the years 1990 and 1991 came about 17% of GNP. The Kuwait crisis has cost the country some $55 to $69 billion (Business Monitor International Ltd, 1993).

ii. Structure of government revenues

Government revenues mainly generate from two crucial sources: oil revenues and non-oil revenues. Non-oil revenues consist mainly of income tax receipts, Zakat receipts (an Islamic tax), income from various fees, licences and charges, income generated from rental or sale of property, operating surpluses of revenue-generating public corporations and receipts from custom duties. Table 2.6 shows that the majority of government revenues generated from oil exportation, where the percentage ranges between 63.6% to 92.3% during the period of 1970 to 1989. This confirms the fact that Saudi Arabia relied primarily on oil revenues for pursuing its development policies. However, the Table indicates that the contribution of the oil sector to government revenues has been on the decline since 1983. This can be interpreted as follows: during the boom stage (1970-1980) Saudi government nullified the custom fee

Table 2.6: the structure of government revenues by current prices (1970-1989)

Year	Oil revenues		Non-oil revenues		Total	
	Milliom SR	%	Milliom SR	%	Milliom SR	%
1970	5862	88.5	764	11.5	6626	100
1975	96624	92.3	8060	7.7	104684	100
1980	279962	91.2	27101	8.8	307063	100
1985	98613	67.4	47677	32.6	146290	100
1989	66552	63.6	38167	36.4	104719	100

Source: Saudi Arabia, Saudi Arabia Monetary agencies, annual report 1988,

and reduced other fees that were linked to its services, this led to diminishing non-oil revenues as a percentage of the total revenues. Because the oil revenues had been diminished after the boom stage, the Saudi government increased its dependency on non-oil revenues, which increased its percentage from 7.7% in 1975 to 36.4% in 1989 (Al-obeid and Atiah, 1994).

iii. Structure of government expenditure

Saudi government expenditure can be divided into three essential components: current expenditure, capital expenditure, and transfers. Current expenditure relates to the current expenses including salaries and wages, operating and maintenance of the government institutions etc. capital expenditure consists of all types of projects infrastructure and facilities (Schools, factories, roads, hospitals). Current and capital expenditure can be characterised as two-way expenses, since they are amounts of expenses that government spend to gain a return. While the third expenditure is a one-way expense that the government spends without gaining a return. This type of expenditure includes subsidies, gifts, supports to other friend countries. Table 2.7 shows that capital expenditure during the boom period, represented the majority of government expenses, where it accelerated from 36.3% in 1970 to 61.4% in 1981. This would reflect the essential role that the Saudi government played in the

Table 2.7: structure of government expenditure by current prices

Year	Current expenses		Capital expenses		Transfers		Total	
	Million SR	%	Million SR	%	Million SR	%	Million SR	%
1970	2318	36.8	2287	36.3	17020	27.0	6307	100
1975	7817	13.2	32022	54.1	19345	32.7	59184	100
1980	40101	18.2	129684	58.7	50978	23.1	220763	100
1981	54408	19.2	167717	61.4	51196	18.7	273321	100
1985	85987	43.6	73031	37.1	38013	19.3	197031	100
1988	87595	65.0	32518	24.1	14737	10.9	134850	100

Source: Saudi Arabia, Saudi Arabia Monetary agencies, annual report 1988.

Countries development during the boom period. However, capital expenditure seemed to decline sharply after the boom period. This can be attributed to the decline of oil revenues as well as the Saudi government completing the majority of its infrastructure projects that had been decided during the first, second, third and the fifth development planning. Relating to its current expenditure, its absolute value was in a continuous increasing since 1970 until 1987. This type of expenditure is difficult to decrease because it is related to salaries and the wages of government employees. Both transfer and subsidies were heavily influenced by the declining oil revenues (Al-Obeid and Atiah, 1994).

2.4 SAUDI ARABIA AND THE WORLD TRADE ORGANISATION

The future conception of the Saudi developmental process requires the preparation of the national economy with all its sectors and agencies to interact with development on local, regional, and international levels. The crucial issue that the Kingdom has to prepare for is its accession to the World Trade Organisation (WTO) and the projected repercussions on the issues of subsidy, aid, and lending policies, which the Kingdom has been pursuing to support and develop its economic activities including industry and agricultures.

The World Trade Organisation (WTO) is the most important institution of the new world order and is in charge of managing international economic relations. Their control and the promotion of their performance, aims at freeing the world trade from all custom impediments. This organisation has also applied the principle of "most favoured nation" to all its member countries without discrimination and worked to promote competition on the domestic and foreign markets. Although membership in the organisation provides advantages, countries that wish to become members will not be able to reap net benefits without some sacrifices. Most studies agree that WTO has become a basic pillar of the new world economic order (The National commercial Bank, 1997; The General Secretariat of the Arab League, 1994). Indeed, 90% of the countries of the world have joined it are convinced that their membership in it will contribute to the improvement of their national economic performance, (at least in the long run), whereas non-member countries are more likely to face continuing isolation and under-development (ASBAR, 1999). The decision of the Kingdom to join the organisation relied on the expected outcome of the positive and negative effects of the membership. A number of studies confirms that joining the WTO would be to the advantage of the Kingdom in the long-term (The Saudi House for Consulting Service, 1994; the Chamber of Commerce and Industry of the Eastern Region, 1996).

Experts have been greatly concerned over the last years with analysing the effects of the Kingdom's accession to the World Trade Organisation (Al-Najjar, 1994; the World Bank, 1993). The implications of Saudi's accession to WTO on its economy involve both positive and negative aspects.

2.4.1 POSITIVE IMPLICATIONS ON THE SAUDI ECONOMY

The advantages expected from the Kingdom's accession to WTO can be summarised as follows:

I. Ascertain the openness of the Saudi economy in the context of globalisation and benefit from its advantages, thus avoiding the hardships of isolation outside the framework of the new world economic order basis.

II. Rationalise industrial and agricultural subsidies and incentives and achieving economic efficiency and creating a favourable climate for privatisation.

III. The reduction of customs and non-customs barriers in the markets of developed countries that absorb the majority of Saudi petrochemical, chemical, and metal products will encourage the private sector to increase investment in the export-oriented industries.

IV. Paving the way for the development of non-oil exports in the international markets, especially those products that the Kingdom has enjoyed a high degree of competitiveness (relative advantage) such as petrochemical products, the chemical products (drugs, fertilizers, insecticides), and iron and steel products.

V. Combating dumping, promoting competition, improving the quality of domestic products employing unused productive potential by overcoming hurdles resulting from limitations of the domestic market.

VI. Participating in the improvement of the living standards of citizens because of increased competition on the domestic market between domestic products and their imported equivalents, excluding agriculture products and foodstuffs, which might face inflationary pressures.

2.4.2 NEGATIVE IMPLICATIONS ON SAUDI ECONOMY

The negative consequences of the Kingdom's accession to World Trade Organisation can be clarified in the following:

I. Some studies indicate the likelihood of the decline of competitiveness of some national agricultural projects and industries because of the reduction of direct and indirect support and subsidies following the kingdom joining to the WTO (AL-Najjar, 1994; the World Bank, 1993).

II. Some forecasts signify that small – to medium-size Saudi's companies may not be able to withstand the sharp competition from imported foreign products, especially from the giant companies (the US, the UK, and Japan).

III. It is expected that the average costs of production will increase because of the reduction of important incentives in the short and medium run, such as supply of electrical and water to the agricultural and industrial projects at favourable rates, tax and custom exemptions and preferential treatment in government purchases, interest-free loans provided by Saudi development funds.

IV. The agricultural sector would suffer more from the kingdom's decision to join the WTO because agricultural development and competitiveness rely much on the support, subsidies and protection that the Saudi government provides to such a sector. This would lead to an increase in the average production costs and may, impede the growth and development of private investment within this domain.

V. The period following the Kingdom's accession to the WTO could increase the inflationary pressures because of the higher costs of imported farm products and foodstuffs as a result of lowering agricultural subsidies and support in exporting countries, which would influence the standard of living of people with low incomes.

For the purpose of facing the negative consequences of the Kingdom's accession to WTO, it is essential to work simultaneously in three fronts:

I. The need to obtain the largest possible number of exceptions and the longest possible periods of grace in the context of negotiations

II. The importance of promoting the future activities of Saudi development funds in a way that will reconcile commitments the WTO and minimise their negative impacts.

III. Speed up the implementation of articles of the unified economic agreement between GCC countries and overcome the obstacles to the creation of an Arab Common Market.

The period of the Kingdom's accession to the WTO is one of the most important stage of the Kingdom's developmental process because the success of this stage would realise a unique blend of economical and social development. Human resources development is considered as the most important stage of the success of any developmental process. Thus, the Saudi Government has been attempting to encourage its citizens to buy into the development responsibility. The following section will discuss this in more detail.

2.5 THE LABOUR MARKET IN SAUDI ARABIA

The Saudi labour market in the years following oil exploration, and particularly during 1970-1990 has developed and changed in a way to cope with the development and growth of the Saudi economy that resulted from the large finance facilities and subsidies which were funded by local development financial institutions (Mahdi, 2000).

The structure of the labour market in both the private and public sectors has changed greatly over the period 1970-1997.

As we can see from Table 2.8 below the number of workers doubled over the Second Five Year Development plan ('975-1980) to more 3 million workers in 1980. The annual growth rate of the labour force over the thirty years is estimated as 6.6 percent.

Table 2.8: Number and structure of labour force in Saudi Arabia by activities (in thousands)

Activity/ year	1965	1970	1975	1980	1985	1990	1995
Agriculture	464.8	445.8	426.1	545.6	538	393.2	377.2
Mining	25.2	25.7	45.6	47.0	62.9	52.3	59.1
Manufacture	41.1	36.1	46.5	170.4	424.1	494.7	566.9
Utilities	8.3	12.2	18.3	76.0	122.2	66.5	79.7
Construction	104.0	141.5	314.2	638.9	1470	916.7	1060.7
Commerce	95.8	130.2	211.0	323.1	688.7	921.9	1026.7
Transport	44.0	62.1	103.2	180.0	316.5	274.9	319.9
Services	218.9	250.2	357.2	654.6	1163.1	2218.0	2549.8
Government	-	-	-	399.4	469.1	711.2	717.7
Others	4.5	-	-	-	-	-	-
Total	1006.6	1103.8	1522.1	3026.0	5244.6	5771.8	6867.7

Source: Ministry of planning " Five Year Development Plan", year from 1970 to 1995.

The government expanded employment of Saudi nationals, as a part of its strategic goal of creating a domestic labour force, in order to meet the needs of skilled labour for the large public development projects. Over the period 1972-1985, the government planned to meet the increasing demands for skilled labour, which consisted of Saudi graduates. Many of whom preferred to work for government, since it provided many advantages such as, high minimum level of pay, promotion, job security, and suitable hours of work, which were not available in the private sector (Mahdi, 2000). This could explain the various managerial problems that were associated with increase in employment within the public sector, such as low productivity amongst workers, disguised unemployment due to over maning and excess numbers of the approved posts in the general budget (AL-Shakhawi, 1994).

The Saudi labour market can be divided into two main groups: Saudi and non-Saudi. About 48% of the Saudi labour forces are involved in managerial and defence employment within the public sector with 16.8% in educational services. Saudi workers in manufacturing sector were only 2.7% of the total employed Saudis in 1992. The occupational structure of the non-Saudi workers shows that about 24.3% of them could be found in the building and construction sector (See Table 2.9 below).

Table 2.9: Distribution of labour force in various activities in Saudi Arabia in 1992

Activity	Saudi		Non-Saudi	
Manufacture	53,781	2.7%	343,901	11.7%
Agriculture	134,729	6.8	231,980	7.9
Fishing	5217	0.3	6867	0.2
Mining	57,866	2.9	19,341	0.7
Utilities	31,059	1.6	22,503	0.8
Construction	31,036	1.6	713,418	24.3
Whole &Retail	116,440	5.9	483,874	16.5
Transportation	103,928	5.3	97,090	3.3
Finance service	29,231	1.5	17,951	0.6
Estate service	27,624	1.4	166,722	5.7
Defence&public	946,173	47.9	73,629	2.5
Education	330,866	16.8	87,798	3.0
Health & social	70,211	3.6	117,981	4.0
Domestic servant	4892	0.3	371,588	12.6
Other	32,169	1.4	184,553	6.2
Total	1,975,222	100%	2,939,186	100%

Source: Saudi council chamber of commerce, "the project of national employment". Riyadh, March 1998 (in Arabic, unpublished).

Since the adaptation of five years plans; Saudi economic development faced a severe shortage of skilled and unskilled labour force to meet the excessive labour demand of the development projects. This challenge was confronted by the importation of foreign labourers the majority of which were Arabs (Egyptian, Yemenis, and Syrian) and Muslims (Pakistanis, Indonesian). This helped to fill the gap in the workforce, but led to categorise the Saudi labour market into Saudi and non-Saudi labour force. Each of which has own characteristics.

As a part of its strategic goal to create a domestic labour force, and to meet the needs of public and private sector by Saudis, the Saudi government established effective formal education and training programs as a mechanism to implement and achieve its goals.

Formal education in Saudi Arabia was established for a relatively short period. However, the indicators of outputs showed a continued improvement at all levels of education. Many institutions, both in the private and public sectors, provided vocational training. Technical education is only provided by the General Organisation for Technical Educational and Vocational Training (GOTEVT), (See Table 2.10).

Increasing the availability of free education could explain the growing number of enrolled students in all levels of education. However, the number of enrolments to technical and vocational education is relatively small and could be attributed to the prevailing social attitude against manual and technical occupation within Saudi Arabia. This led to a high increase in university graduates in certain specialisations such as social studies, literature, theology and humanitarian studies.

Table 2.10: Distribution of the enrolled and graduates of intermediate, secondary, technical and vocational education in Saudi Arabia (000) 1992-1996

Year	Female				Male				Graduates	
	Intermediate		Secondary		Intermediate		Secondary		Technical*	Vocational
	Enrol	Grad	Enrol	Grad	Enrol	Grad	Enrol	Grad		
1992	269.4	73.44	142.77	39.18	347.20	74.94	169.80	33.24	9.373	6.39
1993	303.2	84.24	152.35	42.56	390.02	86.83	188.54	43.68	10.24	6.24
1994	336.8	93.86	173.62	50.64	434.04	84.44	212.14	36.00	12.15	6.10
1995	371.5	99.24	202.02	51.94	462.20	98.52	233.06	42.95	12.65	5.80
1996	394.5	115.62	232.17	57.84	493.37	111.57	266.49	54.40	11.98	5.59

Source: Ministry of Planning "Achievement of Development Plans", 1997

*Both secondary and post secondary levels.

Table 2.11 indicates that 80% of all graduates of local universities in 1995 are students of humanities which includes: arts, education, sociology, theology studies and economics. The remaining 20% is distributed amongst other vocational studies such as medicine, engineering and the similar fields. Saudi students' attitude against manual occupation implies they prefer white-collar jobs. This could explain the majority of Saudi graduates from local university belonging to the humanities fields of study. A field study conducted in 1989 showed that about 80% of Saudi job seekers refused manual work, 74% prefer high status work, 64% select occupation with a good reputation rather than higher wage levels and proportion prefer work in the public sector rather than their own business (AL-Obaid and Ateiah, 1994). This explains the decreasing rate of trainees in the vocational training centres from 2.8% of the enrolled students at the intermediate level in 1992, to about 1.5% in 1995.

Table 2.11: Fields of study for Saudi graduate from local university over the period of 1992-1996

	1992		1993		1994		1995	
Specialisation	NUM	%	NUM	%	NUM	%	NUM	%
Humanities	13165	76.6	15479	78.5	16251	79.9	19856	80.8
Agriculture	457	2.7	435	2.2	457	2.2	369	1.5
Pure Science	11692	9.9	1645	8.3	1421	7.0	1523	6.2
Medicine	591	3.4	635	3.2	654	3.2	813	3.3
Engineering	770	4.5	1038	5.2	992	4.9	1549	6.3
Computer Sc	193	1.1	198	1.0	261	1.3	246	1.0
Pharmacy	203	1.2	184	0.9	224	1.1	127	0.5
Meteorology	22	0.1	32	0.2	14	0.1	28	0.1
Enviro. Stud	17	0.1	31	0.2	11	0.1	20	0.1
Geology	37	0.2	33	0.2	15	0.1	13	0.1
Marine Scin.	29	0.2	16	0.1	15	0.1	26	0.1
Total	**17176**	**100%**	**19726**	**100 %**	**20315**	**100 %**	**24570**	**100 %**

Source: Statistic department, Ibid.

Saudi government spends a high amount of money to develop its native's human resources to qualify them to drive the development projects. Public expenditure on education is about 6% of the total GNP (World Bank, 98/99). However, human resource development strategy emphasises knowledge acquisition rather than knowledge application. A recent study on Saudization indicates that about 26% of the Saudi seekers amongst males considers mismatches occur between the offered jobs with their specialisation as the main reason to refuse a job. In addition to this, 15% of managers in the private sector consider this mismatch as the main driver for Saudi workers to quit the work (Saudi council of chambers of commerce & industry, 1998).

2.5.1 SAUDI LABOUR MARKET RULES AND REGULATIONS

The Saudi labour market is unique in its characteristics and structure. It is generally in the majority of countries that labour unions have the right to negotiate the workers' rights and entitlements against employers' accordance to labour regulations (Barsalou, 1985). In Saudi Arabia, the situation is different, as there are no labour organisations. The unionisation of workers is completely forbidden by the labour law, and various punishments for such behaviour are installed. Unions and syndicates have been prohibited since 1958, as well as the incitement to strike.

Labour regulations in the private sector are different from those in the public sector. The statement of personal contract is the main cornerstone of the working relationship between employer and employee in the private sector. This contract could differ from one company to another and between workers in the same company. This result in wage differential between workers of the same occupation and experience whether in the same company or another, more specifically, pay is based on nationality. Barsalu (1985) stated, " in the most part of the world it would be inconceivable to pay a supervisor less than subordinate because of nationality, but it is common in Saudi Arabia". It is also the case that experienced workers might be supervised by a less experienced and better-paid worker because the latter has Saudi nationality (Mahdi, 2000). Residency regulations (Iqama) play a vital role in the labour market in Saudi Arabia and they only apply to foreign workers. The influential power of these regulations extends to procedures of how to enter the country, mobility of workers and all aspects of his residency in Saudi Arabia. According to Iqama regulations, foreign workers are only allowed to work in Saudi Arabia if they first have a work contract with a Saudi who acts as the worker's sponsor (kaffel), and this should be arranged before applying to enter the country.

In short, the application of Iqama regulations creates two groups of workers, Saudi and non-Saudi workforces which attract different treatment with regards to income, mobility in the labour market, pension and other aspects of employment. This complicates the application of these regulations, which has led to disorder and distorted the labour market in Saudi Arabia.

2.5.1.1 SAUDISATION POLICY

It has been adopted by the Saudi government as a strategy to substitute foreign workers by Saudis, with the aim of increasing the reliance on a local or domestic labour in the long-term. Saudisation indicates the process of substitution of foreign workers by Saudi nationals (Mahdi, 2000).

During the first two development plans of 1970 to 1980, labour policies encouraged the inflow of a large number of foreign workers to fill the gap in the Saudi labour market. In this period, foreign workers increased at annual rate of 20%, to implement the development projects. The result is that employment among Saudis represented 59.3% of total Saudi population, while employment among non-Saudi is 81% of the foreign population. The labour force of Saudi nationals was 43% of the total population in 1992, and stood at 57% for non-Saudi. Unemployment among Saudis is 13.4%, and for non-Saudi was 3%, (see table 5). Therefore, the development plans of 1985 to 1995 adopted a Saudisation policy to mitigate the number of Saudi's unemployed. However, this strategy was not activated until the end of 1995 where steps were taken to ensure that Saudisation was taken seriously. A ministerial decree obligated private firms that employed 20% workers or more, to increase the number of their Saudi labour force through decreasing their foreign workers annually by a minimum rate of 5% of total firm's employees. Severe punishments were to be applied on firms that did not conform (Mahdi, 2000).

Saudisation policy has (could) influence(d) Saudi companies negatively in the short and medium terms. This could be illustrated in the following points:

I. This policy could raise the operating costs of Saudi companies, as Saudi workers are reluctant to work at the same wage rates of their non-Saudi. Thus, wages are expected to increase, which negatively affect company profits.

II. This policy could result in falling revenues of some Saudi companies, since this will decrease the level of consumption of non-Saudi occupants because they will go back to their countries (Medina chamber of Commerce, 1998).

III. This policy could result in the shortage of skilled labourers, especially technical and vocational ones due to the social attitudes toward vocational training and manual work (Medina Chamber of Commerce, 1998).

IV. It could decrease the productivity of most Saudi companies, as Saudi workers are deemed to be less committed to work and have a weak attachment to the culture of the labour force. This takes various types such as absenteeism, and lateness (Mahdi, 2000).

2.5.2 IMPLICATIONS ON MERGERS AND ACQUISITIONS

The nature of the Saudi labour market has impact on mergers and acquisitions that could be illustrated as follows:

I. Since labour unions and syndicates are prohibited in Saudi Arabia, this might give merging companies the chance to layoff any employees without much concern about ramifications of the process of layoff. However, this might involve negative impact on merging companies employees who may see their colleagues being laid off without a fair hearing.

II. Saudisation could represent opportunities for merging companies to mitigate anxiety and stress associated with mergers and acquisitions, as they layoff only non-Saudi whose contracts finished and retain Saudis. This could increase Saudi employees' morale and commitment in the work, but is not expected to influence the morale of non-Saudi, as they know in advance that they will go back to their homes (be laid off).

III. However, Saudisation could diminish the cost savings that might be achieved from the merger process. This is because the operating costs of merging companies will increase as Saudis' wages are expected to be much higher than their counterparts (non-Saudis).

2.6 ECONOMIC PROBLEMS AND THE ROLE OF SAUDI'S PRIVATE SECTOR

Although the economy of Saudi Arabia has transformed dramatically from a primitive economy to an advance one, it faces some basic problems. The essence of the economic problem in Saudi Arabia lies in the fact that the major source of income is only one commodity-oil. However, oil is a depletable resource, with time it will be exhausted, thus, alternatives must be found to ensure economic continuity and stability. Since Saudi the government has the overall control over the oil resource, it has become the vehicle behind modern development within Saudi Arabia. It, consequently, plays a potential role as a consumer and as a subsidiser of the consumption as well as the provision of loans and other financial assistance to other markets within the economy.

The second problem is work force shortages in both a quality and quantity sense. Despite the huge expenditure on both education and training, many problems associated with the work force still exist, such as the lack of technically skilled labourers, inefficiency, and disorganisation. In other world, an important factor of economy growth is not fully utilised (that is human resource). Finally, the most demanding and persistent economic problem that Saudi Arabia is currently facing is "budgetary deficit". This deficit is ascribed to many factors including heavy expenditure on development projects, fluctuations and uncertainties in the international oil market, and the involvement (of the Kingdom) in the neighbouring Iraq-Kuwait war in 1990.

In 1994, Saudi Arabia responded to this problem by making the biggest spending cut and reduced expenditure by about 20% from $52.5 billion in 1993 to $42.6 billion in 1994. Moreover, Saudi Arabia is expected to pursue an ambitious privatisation programme to finance the budgetary deficit. Consistence together with the long-term goals of Saudi's economic policy, government's (fifth and sixth) development plans have emphasised a structural change in the economy from growth based on public sector initiative to one where the private sector take the lead. The fifth development plan (1990-1995) emphasised that the private sector is the cornerstone of the economic diversification (Ministry of planning: The Fifth Development Plan 1990-1995). A net influx of private capital from abroad and within the Kingdom will be channelled into development projects in order to increase the level of foreign direct investment in the Kingdom. Moreover, the development of domestic financial markets occupies special importance in the fifth and sixth development plans to facilitate investment objectives and to promote the participation of the private sector in financing the development required.

The progress made in the private sector was made possible due to Saudi (governmental) support to sectors including market protection, subsidies, technical aid, exemption from customs fees, land and services. In addition, the government's commitment to a high level of capital expenditure enhanced the demand factor for private sectors. Finally, the completion of physical infrastructure facilities supported the whole business environment. However, prior to the Kingdom accession to WTO, the Saudi government had to rationalise its spending and assistance to the private sector. This meant the private sector had to confront business challenges and competition alone or with little government assistance. Therefore, Saudi companies, which comprise the private sector, should prepare themselves to such challenges and competition by pursuing appropriate strategies. Merger/acquisition strategies could present themselves as the fast way to strengthen the small and medium-size companies to stand successfully against the giant companies. Furthermore, these strategies could enhance large companies to control and manage their external environment to their best interest. However Saudi companies are often reluctant to pursue such strategies since they often lack the experience, knowledge, and confidence to adopt and implement such corporate strategies. The following section will be devoted to a discussion on mergers/acquisitions in the context of Saudi Arabia.

2.7 MERGERS/ACQUISITIONS IN THE CONTEXT OF SAUDI ARABIA

The opinions of experts regarding M&As in Saudi Arabia are conflicting, the majority support and encourage Saudi companies to adopt M&As as an appropriate strategy to face the new century challenges. However, some experts cast doubt surrounding the effectiveness of M&As for the Saudi companies as a way of confronting the challenges posed by the advent of the new century.

2.7.1 PROBLEMS AND CHALLENGES FACING SAUDI COMPANIES (SELECTED SECTORS)

This section encompasses problems and challenges facing Saudi companies from selected sectors following this will be a discussion on the appropriateness of merger/acquisition strategies as a solution to such challenges.

2.7.1.1 INDUSTRIES

i. Agriculture

Alarafi (The head of Agricultural National Committee in Riyadh chamber of commerce), stated that the Saudi agricultural companies encounter serious problems because of the constriction in government subsidies and the huge reduction in the production of wheat. This led most of these companies to incur huge loses that could threaten their existence in the market. Moreover, the problem is exacerbated, as the

Saudi market is open to exports from all over the world (Alhiat Newspaper, 1999; AlRiyadh Newspaper, 1998).

The private sector that has suffered more from the rolling back of government subsidies and assistance is the agricultural sector. Despite the major achievements and developments that have been accomplished in the Saudi's agriculture sector, serious problems (such as water scarcity, the nature of the desert soil, adverse climate conditions, the insufficient of domestic labour...) threaten the competitiveness of this sector in the future as government assistance and subsidies will be further reduced. Accordingly, it is difficult to find a competitive advantage that the agriculture sector has, without government subsidies and support. Therefore, Saudi companies in this sector will probably play a minor role in the global market, unless effective corporate strategies are to be recognised, considered and successfully implemented.

Alarafi considers mergers and acquisitions as enabling agriculture companies to constitute a strong enough corporation to cope with the turbulent business environment (Alhiat newspaper, 1999; AlRiyadh newspaper, 1998). However, some Saudi experts think that M&As between agriculture companies could exacerbate their problems rather than solve them. They see mergers between stumbling companies probably leading to more difficulties and failures since the merging company needs effective management and skills to handle merger processes which the current companies may not have. Researcher feel that merger/acquisition could alleviate the problems that face agriculture companies if these companies are diagnosed and analysed well, so that each company identifies its strengths and weaknesses. Only then can a company choose its merger partner that strengthen its uniqueness and offset its weakness. For instance, one company that has uniqueness in its marketing and face financial problems, could select its merger partner that have strong financial position even if it has a short fell in its marketing function.

ii. Cement

The Saudi Cement industry has suffered from decreasing profit levels. This was ascribed to the reduction of price level by 20% due to increasing in the supply relative to demand. This is the result in of negative that Saudi Cement Companies have experienced during the last decade (AlRiyadh newspaper, 2000b):

- Swing the Cement sale prices,
- Increase surplus capacity,

- Diminish profitability in the industry,
- Increase prices wars among Cement companies,
- Increase the idle capacity in the Cement industry by 27%.

The Cement industry was one of most profitable sector in Saudi Arabia during the boom period. However, this profitability has diminished as the majority of infrastructure and construction projects have been completed. This led to an increase in the supply relative to demand, this in turn encouraged price wars.

Three chief executives of Cement companies have expressed their opinions concerning the solution for the companies' problems (AlRiyadh newspapers, 2000a):

Saud Awonallah – Assistant of the General Manager As Arabic Cement Company, stated that mergers and acquisition are the appropriate solution to Cement Companies to overcome their difficulties, and any company rejecting these strategies will have to "swim against the current". (He envisaged this in the globalisation and cartels era.). M&As could be the significant strategies to face business challenges, as these strategies would enable combining companies to rationalise their operations and distribute costs in order to achieve economies of scale and, in turn, would enable them to improve their competitive position both nationally and globally.

Amer Bargan-General Manager of Southern Cement Company, pointed out that the national market absorbs only two-thirds of the available capacity to Saudi Cement Companies. This resulted in an overflow in supply relative to demand, which caused destructive competition on the basis of prices. He sees that the appropriate way to encounter such a problem is to export the excess capacity. Moreover, he prefers merger strategies to follow this mindset.

Furthermore, AL-Moshari, stated that the Saudi Cement market encountered a period of stagnation and this state could have occurred over a period of (long) time. He demonstrates that any one company alone would not be able to pass through this period without the co-operation of other companies within the industry. He recommends that Saudi Cement Company's introduce merger strategies as a main point in the companies' general association agenda. He argues that giant companies adopted these strategies all over the world, which enabled them to deal with their difficulties successfully. However, he displays those mergers and acquisitions in Saudi Arabia could face many obstacles that may limit their effectiveness. These obstacles can be summarised in the lack of experience, knowledge, and confidence to pursue such strategies (AlRiyadh newspaper, 2000b).

iii. Recruitment

About 360 labour offices in Saudi Arabia are responsible for recruiting foreign professional and vocational employees to Saudi labour market. Since these offices are small and family-own companies, they lack bargaining power relative to the foreign exportation offices, and have suffered from the exploitation and manipulation of the foreign employment offices and labour unions in countries where the labour offices recruit the labour (Indonesia, Egypt, and India). These foreign offices dictate their conditions and terms at the expense of Saudi companies and the society as a whole. This suffering is exacerbated by severe competition among Saudi labour offices to gain the pleasure of these foreign offices. Under these circumstances, a number of experts and analysts, as well as some owners of these offices, suggest increasing their power and influence through pursuing mergers and acquisitions that could enable them to serve and bargain for the interest of Saudi companies (AlRiyadh newspaper, 2000; Al-Equitisadia, 1999).

iv. Banking

The Banking industry in Saudi Arabia is one of the largest bank sectors in the Middle East in terms of assets, size, and profitability. Tabulating Saudi economic indicators and estimates from 1997 to 2000, shows that the economy is surviving the oil price fall through greater liquidity and less reliance on oil revenue, whilst neglecting to charge higher rates of tax on consumption. In this recession, (unlike the last one), banks are well managed and strong, with sound controls, good liquidity ratios, and healthy demand for loans. This could encourage several merger opportunities for the banks, with some foreign participation (The Banker, 1999).

However, the number of banks operating in the Saudi market is limited and may not match the size and development of the Saudi economy. This could diminish the competition in the bank industry (Al-Iktisad, 1999).

Dr.Al-Dakhil- a well-known counsellor in investing and financial economic, states that the banking industry in SA faces some problems related to the legal system and its ability to obligate creditors and debtors to respect and protect loan agreement terms. He holds the view that the current legal bank system in SA does not have enough power to protect the banking operations and force debtors to repay the money that was lent from the bank. Therefore, many debt accounts might be lost due to the weakness of the legal system. This could result in surfeit loan being supplied to large institutes that have high capital adequacy; also national savings may escape to abroad where money security and safety are prevailing; but small and medium size institutions might suffer from the lack of loan suppliers. He adds that the financial and administrative regulations and rules in the banking system have to be relevant to the banking operations. Banks manage not only their capital but also the depositors' money. Therefore, regulatosr must enact appropriate rules and regulations that ensure the security and safety of the depositors' money that has to be free from any form of "spoil system".

Dr. Al-Sahlawy-assistant professor of finance in the college of administrative sciences, King faisal University, states that Saudi banks are in their way to facing an era that completely differs from what they are used to operating in. The world witnesses the mega-mergers among giant banks that change the mode of competition. For instance, the merger of Bankers Trust with Deusche Bank in the late of 1998 saw the largest bank merger in the world at that time. Its assets worth more than $730 milliard, but this position has fallen to second rank after the merger of Fuji Bank and Daiichi Kangyo and Industrial Bank of Japan in the early of 1999 which constitutes the hugest bank in the world. Its assets are estimated to exceed $1310 Milliard (Abo Saeed, 2000).

Moreover, commercial barriers among nations will be removed as they join the World Trade Organisation in order to liberalise trade from any obstacles and barriers that might limit its freedom of movement across nations. This will form what's termed as "Globalisation". These circumstances will put Saudi banks into challenges positions. Al-Sahlawy, hold the view that mergers and acquisitions alone are not enough for Saudi companies to surmount such conditions and circumstances. He judges giant companies as possessing the highest advancements in information technology, high capital adequacy, experience, and knowledge that might not available within many Saudi companies. He suggests that Saudi banks have to design an effective strategy that enables them to offer distinctive competitive services through capitalising on competitive advantages. This variety is available in some Saudi banks (but not in others), such as providing a variety of financial services that agree with Islamic teachings. (Al-Iktisad, 1999).

Dr.Al-Hammad –Dean of College of Administrative Sciences, King Faisal University, envisages the next phase of Saudi economic advancements as joining the World Trade Organisation. This necessitates the economical openness to the world economy. He perceives a number of benefits that could be enjoyed if Saudi Arabia joins the WTO, these are:

I. Customers could enjoy enhanced services at lower prices due to intense competition among banks.
II. Promoting the banking activities and operations.
III. Increasing the effectiveness and efficiency of the banks' performance.
IV. Encouraging and motivating Saudi banks to develop their performance to meet the world performance standards.
V. Opening up the world markets to Saudi banks to penetrate and exploit opportunities available Saudi Arabia.

These advantages can not be achieved without a price. Saudi banks have to compete against giant banks locally and globally. This calls for Saudi banks to prepare and plan for these eventualities. He makes it clear that mergers and acquisitions are deemed appropriate for Saudi banks to adopt in order to grow in size to enable them to compete successfully in the new world business environment. He sees that larger Saudi banks could increase their operations, diversify their investment portfolios and invest in advance information and communication technology. This, in turn, would qualify Saudi banks to enter the new era with confidence (Al-Iktisad, 1999).

Al-Moalimi –Member of Consultancy Council and Vice President of Chamber of Commerce and Industry, Riyadh, has another viewpoint as to mergers and acquisitions in the bank sector. He recognises that over the last two years the number of banks in Saudi market has contacted as result of merging three commercial banks under one bank- Saudi-Cairo bank, Saudi commercial united bank, and Saudi American bank, these three banks became one bank under the name of Saudi American bank. The Saudi bank industry consisted of twelve banks, and after the merger, the number of banks become only ten. This would constitute an oligopoly system among these banks. He supported his view with the following evidence:

I. The bank sector has realised high profit.
II. Periodical meetings occur among these banks.
III. Information is exchange between the banks.

Therefore, he is conservative about his reflection of the mergers in the banking sector on the industrial investors as well as final customers, even if, it could benefit the shareholders of the banks (Al-Iktisad, 1999).

2.7.2 MERGER/ACQUISITION ACCORDING TO THE EXPERTS AND ACADEMICS

Dr.Al-Jafri -Finance management, King Abdulaziz University, reports that M&As might be not viable in the Saudi market. He sees Saudi market requiring more companies to enable the investors to increase their chance for diversification and selection in order to support the competition in the Saudi market. He also believes that mergers and acquisitions will enhance the "monopolistic fist" of merging sectors which would hurt the customers and the economy as a whole (high prices and low quality). Moreover, he perceives that mergers and acquisitions are a new phenomenon in Saudi Arabia that may lack the appropriate information, experience, and skills to handle such large changes associated with M&As. Furthermore, Saudi Arabia lacks an adequate legal body to organise and maintain healthy competition in the Saudi market. Finally, he is not convinced that mergers and acquisitions are appropriate strategies to take in a global economy or in the face of organisational restructure, as he makes clear that having larger companies without a strategy is not adequate to encounter the effects of World Trade Organisation. He believes that the possession of advanced technology and the ability of management to plan and guide the organisation to overcome economical difficulties and a turbulent global environment and control the costs are the main sources of success. He articulates that small and medium size companies could operate effectively in the globalisation era. He proves that many companies all over the world are pursuing downsizing strategies to face the turbulent environment, also 66% of American companies are small and medium size and this represents an effective mechanism in terms of employment, financing and supporting the American national income. He agrees that M&As could be used to face the stagnation and recession of the market, but it should be recognised that there are negative effects of such strategies on the structure of the competition in the Saudi economic and on customer protection, because this may lead to monopoly (Al-Equtisadiah, 1999a; Al-Equtisadiah, 1999b; Al-Equtisadiah, 1999c).

In reply to Dr.Al-Jafri, Dr.Al-Esa –lawyer and legal counsellor, comments on the opinion of Al-Jafri as it is against what the current era requires. In the conglomerate, technology and globalisation era, a company size plays a vital role in terms of the possession of financial abilities, technologies, and the trust of customers and clients. He regards mergers and acquisitions as appropriate strategies for Saudi companies to cope with the business challenges posed by globalisation and advance technologies.

He hold the view that the opinion of Al-Jafri is based on a theoretical point of view, which concentrates on the negative aspects of M&As that led him to see such strategies as not being viable for Saudi economy. He (Al-Esa), recognises that any strategy has advantages and disadvantages, but the strategy has to be selected through conducting economical and legal viable studies. He agrees with Al-Jafri that a large number of companies in the market will support the Saudi economy under honest free competition and normal economical conditions. However, the globalisation and other conditions could force companies to unite together to face the severe competition in and out of Saudi Arabia as well as benefit from the opportunities that could be created by trade liberalisation (Al-Equtisadiah, 1999d).

Dr.Al-Bazei, Deputy of ministry of finance for economic affairs, makes clear that Saudi Companies have to promote and develop their competitive abilities not only because Saudi Arabia will join to WTO but also because of Saudi Arabia's policies to increase exportation strategies to other countries. He articulates that the development of competitive abilities should not be through building huge companies that rely on their monopolistic power and do not care about the effectiveness and efficiency of their operations. He states that large companies could be necessary under certain circumstances. However, it should be wary about supporting mergers and acquisitions initiatives in the Saudi market because there are no rules and regulations that prevent monopoly in Saudi Arabia. Mergers could have occurred in the Saudi bank sector, as there are only a few banks in the industry. This could negatively affect the services offered to small clients and depositors (Al-Madina-np, 1999).

Dr. Daquistani- Member of Consultancy Council, and the Head of Alam Aleqtisad Magazine, realises the importance of differentiation between theoretical and practical mergers. He reports that mergers theoretically associated with the economic integration that lead to economies of scale and scope, will enhance the competitive capabilities and achieve effectiveness of performance in the efficient use of the resources. He considers this theoretical base is essential for any mergers and acquisitions. He adds that mergers by themselves are not a goal, but it is a way to obtain economical advantages and benefits within the competitive environment. He perceives the mergers that have occurred in the Saudi bank sector reflects the awareness and maturity of the sector that enables the industry to restructure in the face of globalisation and other situations that occurred in the Saudi economy during the last decade, such as the reduction of government spending due to declining oil revenues and privatisation. However, he conceives that mergers and acquisitions are new strategies in the Saudi Arabia, so companies have to deal with such strategies with caution and prudence (Al-Madina-np, 1999).

Whinny Murray & CO and Commercial and Industrial Chamber, Jeddah organised a colloquium about the viability of small and medium companies mergers in Saudi Arabia. Al-Biuok- member of Whinny Murray & CO, stated that the reasons behind the mergers initiatives in Saudi Arabia could be attributed to the followings (Al-Hiat, 1999a):

I. Decreasing the oil sector's contribution to Gross National Product,
II. Increasing the industrial sector's contribution to Gross National Product,
III. Saudi Arabia's approach to join the world Trade Organisation, which will intensify the competition at home and abroad,
IV. Saudi government's increase in the role of the private sector to develop Saudi economy through privatising a number of publicly owned sectors such as the communication sector, Saudi Arabia airlines etc. in order to face the globalisation,
V. There are a large number of small companies in the homogeneous industrial market, such as Cement Companies. This led to excess capacity in this market, mergers between these companies could form strong Cement company or few companies that would compete effectively in local and global market,
VI. The majority of Saudi companies are family-owned companies, which could result in many disputes and conflicts amongst inheritors after the founder of the company is dies. This would liquidate such companies, which could negatively affect inheritors and investors as well as the economic as a whole. Therefore, changing family-owned companies to Limited Liability Company, Joint Stock Companies or merging with others could represent the ideal way for these companies to prosper and continue in the future.

Al-sharik- member of Winny Murray & CO, adds that by attract new customers to the merging company, could reduce risks and costs as well as decreasing the competition which are the main reasons for the mergers initiatives in Saudi Arabia. He perceives that there are a number of barriers that might limit mergers and acquisitions operations in Saudi Arabia, these are as follows (Al-Hiat, 1999):

I. The majority of Saudi companies are family-owned, and may refuse to merge with some other companies because they fear that may lose management and control over their companies (and the name of the company).
II. Change resistance especially from old and large companies that see mergers and acquisitions as negating hard work for a decade.
III. Problems associated with mergers and acquisitions: the competition to win on managing the merging companies.

Psychological and social reasons are barriers to M&As in Saudi Arabia, which are suggested by Al-Adwan (1991) and Al-Shathry (1991). According to Al-Adwan "although M&As could be economical beneficial, it is not used because of psychological barriers: the owner of the establishment feels, that when he decide to merge that his authority will decline. Also, his name and his prestigious social position in the company and his family name in the market will be affected" p.8.

The non-existence of a clear process and mechanism to facilitate M&As activities represents a reason for the limited number of M&As in Saudi Arabia, as claimed by Al-Moalmy (1991). The insufficient experience of Saudi companies' owners and managers as to mergers and acquisitions is a barrier to the adoption of mergers, claimed by Al-Olyan (1987).

Mergers are not a fashion that occur then disappear, but is a phenomenon that has pursued to confront changing business environment, as claimed by Al-Quize. This strategy is aimed at diversifying products and services, decreasing risks and costs, increasing market share, benefiting from economies of scale and ideally exploiting the technology. However, he commented that mergers are not easy to implement, it has been found that more that 50% of the merged companies fail to achieve their goals.

He attributed the merger failure to the following main reasons:

I. Culture conflicts.
II. Weak planning to finalise the merger processes.
III. The price of the deal too high.
IV. The human problems associated with M&As are not often recognised or dealt with effectively/efficiently.

There are number of points to be taken into consideration in order to ensure the success of the practical planning and implementation of merger strategies, suggested by Al-Quize:

I. Negotiation process should be fair and honest and of benefit to both parties.

II. Top management and investors of the two merging companies have to buy into the importance and benefits of such a merger.
III. Merging companies have to make sure that the employees that have been laid off are those who should be laid off.
IV. Design an effective communication plan.
V. The daily work of the two companies should be practised as usual; otherwise, merging companies may lose their customers for the competitors.
VI. Mergers may take time so patience is required.
VII. Merging companies should take the legal and tax regulations seriously.
VIII. Management should aim to achieve the benefits and objectives of mergers not just finish the deal (Alam-aleqtisad, 1999).

Simplifying government rules and regulations are an important step in attracting foreign investment, accommodating to globalisation and support the competitive ability to Gulf companies, (in general) and Saudi companies, (in particular). Boorland- a Consultant at Saudi American Bank, regards cultural conflicts between the merging companies is the main obstacle that might impede the success of M&As. He thinks that financial and technological problems could be resolved easily, but changing people beliefs and values are very difficult and it takes time. Changing organisational culture represents an opportunity to merging companies to adopt the best behaviours and entity for more effectiveness and efficiency. This should be the long-term objective for any successful mergers and acquisitions (Asharq Al-Awsat. 1999a).

In short, we can conclude from the discussion above that Saudi companies perceive mergers/acquisitions as an important step to react with the business environment challenges. In other words, Saudi companies often hesitate and may have to be pushed to pursue such strategies to confront the turbulent business environment. More clearly, Saudi strategies (to face new business challenges) can be characterised as being reactive rather than proactive.

Researcher views that mergers and acquisition strategies as promoting more competitiveness within Saudi' industries. However, those strategies involve very complicated processes. The positive results (advantages and benefits) that could be realised from such strategies call for recognising the success factors that are very important to the success of mergers and acquisitions. In other words, human resource and cultural issues could be the main source of success in companies pursuing a merger and acquisition strategy if well planned. If unplanned, M&A could exacerbate the problems that face Saudi industries conversely.

2.7.3 HUMAN RESOURCE AND CULTURE IMPLICATIONS OF MERGER/ ACQUISITION IN SAUDI CONTEXT

Mergers/acquisitions involve human resource and cultural implications as these strategies often call for upheaval and integration of different cultures (such implications and consequences will be discussed in much detail in chapters 3, 5, and 6). In this section, we try to consider human resource and cultural implications that resulted in some of the mergers/acquisitions, which have occurred in Saudi Arabia.

2.7.3.1 CULTURE ISSUES

The interviews that have been conducted by the researcher investigated the following implications:

In the acquisition of Aramco to Smarac, one of Smarac's employees expressed his concern in working under pressure and in a completely different culture as the culture of Aramco has imposed on Smarac's employees. This emphasised a centralisation approach while Smarac has used to working within a decentralisation approach. Smarac's employees expressed their resentments as they had to report each small and large issues to the top management for discussion and approval. An interviewee said "We feel that the Aramco management approach towards Smarac's employees is both superior and arrogant. Since then, a number of Smarac's employees have resigned and some of them have been laid off. This affected those who remained as well as Saudi Society as a whole as the unemployment rate increased.

The merger between Alshathry and Alshhaby engineering offices did not continue and it ended within two years, although several benefits were achieved from such a merger. Alshathry, the president of Alshathry engineering office, stated that the way Ashhaby manages the business differs from what the way his office was managed. Thus, he thinks that a number of opportunities will be missed as the Alshhaby office views opportunities with a reactive rather than a proactive way. Alwashmi, partner and vice president of the Ashhaby office, expressed that Mr. Alshathry attempted to bring some new ideas and insisted that the new merging company should be involved in these, but such ideas were new to his operations and contradicted with the core professional activities. Accordingly, we can perceive that the main reason of the merger failure was the difference in the two cultures and inability of merger partners to recognise each partner's strengths and weaknesses, and they were both unable to capitalise on each partner's strengths and to offset their weaknesses.

Dr.Shaath, the owner of accounting firm and supervisor of a number of mergers within Saudi Arabia, was asked about the problems that have faced Saudi companies during merger processes. He stated that the difference between the management styles in the two merging companies represents the main sources of obstacles that complicate the integration process. He added that a merger is like a marriage; in order to increase the possibility of its success the partner should know each other's objectives, lifestyles, values and beliefs. If the two partners are similar or agree on these entities, the probability of the success of the marriage will increase. In a similar view, a company should look for a merger partner that has similar objectives, values and beliefs (culture) to increase the potential of the merger.

In addition, Dr.Shaath indicated that acquisitions are less problematic than mergers. He argued that during a merger each partner thinks that his style, routines, and employees is better than his potential partner's. Consequently, organisational and managerial problems will surface in such a situation, and may negatively affect the merger process from the beginning. However, in the acquisition case, such problems would be less intense as the acquiring company has the right and power to impose its culture with less resistance.

In the merger of Saudi Cement Co with Bahraini Saudi Co, I asked one of the top managers about the difficulties and obstacles that they confronted during the merger process. He replied that the most serious problem faced during the merger process was the clash between the two cultures. Each company had a unique way to conduct its business; it is very difficult to convince a group of people to give up their way of conducting business so easily after the merger. For instance, Saudi Cement Co, established thirty-five years ago while Bahraini Cement company was established ten-year ago. The average age of the employees in Saudi Cement ranged from 50 to 60 years old while in the Bahraini Cement the average range was between 30 to 40 years old. We can imagine that Saudi Cement has been used to managing its company in specific style for more than thirty years; it is very difficult to convince those people to change their way of conducting business after the merger. Similarly, Bahraini Cement management found it difficult to manage the new entity using its conservative (old style), which is not suitable in such a turbulent environment. Up to now, the consequences of such clashes have existed, but at less intense, he said.

We can see from the selected writings, which have been extracted from the interviews conducted by the researcher, the seriousness of the culture issues in the success or failure of mergers/acquisitions in the context of Saudi Arabia. However, the majority of companies involved in mergers/acquisitions seldom gave such issues the importance they deserve. The ignorance of such serious issues can be attributed to:

I. It is difficulty to recognise and manage hidden issues (such as culture).
II. Saudi companies have little, if any, experience or knowledge in the process of integrating two different cultures.
III. The primarily emphasis in the merger process is devoted to both financial and costs issues, but human resource and cultural issues are given seldom attention. This is because Saudi companies are unaware of such invisible issues (managing human and culture issues).
IV. The planning and preparation period for such huge corporate strategies are insufficient. In other words, the merger/acquisition decision is often made reactively rather than proactively.

2.7.3.2 HUMAN RESOURCE ISSUES

Effective human resource processes are the secret of the success of any company, yet the importance of human resources increases in the case of merger/acquisition because of the transformation and upheaval that is brought about by such strategies. The implications and consequences of such strategies on employees are often severe, as the brunt of merger/acquisition is often concentration on the merging companies' employees. The followings are selected writings from interviews conducted by journalists.

Prince Alwaleed- Chairman of the Board of United Saudi Bank was interviewed by Altunisi, which published in Al-Eqtisadiah (1999f). The interview can be summarised by the following:

Q-What is the effect of the merger on the two banks' employees, especially the employees of united bank?

A- There is no impact on the employees sector.

Q-The interviewer repeat the same question a different way, as the interviewer said to the prince you have laid off a large number of employees after merging Saudi-Cairo bank and Saudi Commercial bank.

A-Prince said that the Employees sector will not be harmed, but will be integrated between in the two banks.

From Alsharq Al-awsat-np (1999), reliable sources (Al-Jaber and Al-marhon) indicate that about 700 of Saudi united bank employees have received a letter explaining that they will continue in the new bank. However, about 300 employees from Saudi united bank lost their jobs in the new bank as they did not receive a letter to signify their continuity (this number will increase further after merging the branches).

This news contradicts what prince Alwaleed said in his interview that Saudi united bank employees sector will be not harmed.

"Abusive layoff" is one of the major problems that result in merger strategies in Saudi Arabia. The following section will investigate this problem through interviewing some employees who were laid off. These interviews were conducted by Alyami and published in Al-watun newspaper (2000).

Many Saudi companies pursue abusive layoff as a result of mergers and acquisitions. For instance, Saudi-American bank discharged 15 employees and Saudi Cement Company fired 21 employees after merging with another company.

Bader Al-dossari was a clerk in Saudi-American bank and he had 10 years experience. He stated that they tried to force him to resign by demotion from head of operations to clerk. He tolerated several types of insults because his job was the source of his income. One day they called him and gave him a redundancy letter, which shocked him. When I ask them why? They told him he was redundant, and then gave him three thousand to "close his mouth", but he refused this. Al-Dossari reports that nepotism and courtesy, which prevails within governmental agencies and private establishments, are the main cause of laying him off and others remain who are less than competent in terms of experience.

Saleh Al-Oliani was financial and administrative manager in the Saudi Cement Company. He suddenly received his layoff letter after it merged with another company. They justified the layoff, as redundancy. Surprisingly, they assigned non-Saudis into his position, but they retreated after he took legal action against them, and then assigned a Saudi employee who was working under his supervision. Moreover, he stated that they offered him SR100 thousand if he gave up the legal action, but he rejected this because of his unfair treatment.

Another employee, who prefers to remain anonymous, indicates that his 15 years experience in the Saudi-American Bank may not prevent him from being made redundant. He explored the bank's under-handed operations that they used to deceive Saudisation committees. He said that the bank recruits non-Saudi employees to carry out the same jobs that Saudis practice. This group of employees were recruited under the sponsorship of other offices that make it difficult for Saudisation committees to reveal such action. He concluded his interview regretfully explained that his family now subsidises him and his children.

Abdulwahab Al-khuater is another Saudi employee who has faced the same fate. He accused Work Office of unfair dismissed and raised his lawsuit in the face of the opposition who he considered to be negative, weak and nerveless.

The employees, mentioned above, informed that the researcher that they were harassed by the managers of these companies and establishments who forced them to resign, but they regret their actions due to the scarcity of jobs available in the Saudi labour market

These are only a small sample of abusive layoff cases that occurred in Saudi merging companies and could be enough to indicate the seriousness of such actions not only on employees, but also on the companies themselves and, in turn, society as a whole.

If we try to compare the benefits and costs associated with abusive lay offs:

The company could save approximately 10% to 25% of the total employees' salaries as result of firing the redundant employees; since the exited employees are often from middle and lower levels; the percentage could be less than the above (Kamel, 2000).

The costs that merging companies and society could experience are:

I. Deprivation of merging companies from the experience and skills that are possessed by the fired employees, especially if the layoff process is based on the spoil system (nepotism) that prevails in Saudi agencies and companies which is not a fair system.

II. Increase in the rate of unemployment in Saudi Arabia. This will impact negatively on Saudi economy and the purchasing power of Saudis.

III. Employees who are sacked abusively after working for a long time could become resentful toward merging companies and act against the related companies' interests. Moreover, these resentful employees could take legal action, which could negatively affect on the reputation of related companies. This is a reputation that may have cost the company both money and time to build.

IV. Abuse layoff could impact negatively on the remaining employees' morale, and they could become anti-management.

The costs associated with abuse layoff seems to outweigh the saving gained from fired employees' salaries. This could explain, in part, the higher rate of failure of merger and acquisition strategies to achieve their financial objectives.

Effective merger and acquisition strategies should involve well-planned and elaborate programmes to alleviate redundancy labour problems. Such programmes should recognise that the excess labour will decline year after year as result of:

I. Death/retirement age.
II. Some may wish to pursue their career elsewhere, or they may want to become self-employed. In this case early retirement is an appropriate strategy.
III. Training programmes could qualify some to occupy vacancy jobs that might available in other departments or as a result of developing and growing a company' activities.

Such considerations and strategies could alleviate and/or solve excess labour problems more smoothly and effectively.

Chapter 3

3. IMPLICATIONS ON HUMAN RESOURCE AND CULTURAL FACTORS IN THE MERGER/ ACQUISITION PROCESS

3.1 INTRODUCTION

The majority of companies have increasingly placed their faith in organisational growth and development through mergers/acquisitions. However, many companies appear to overestimate the potential benefits of such strategies and the ease with which they can make such organisational combinations successful. Companies often believed that merger/acquisition would increase market share, reduce raw material costs and uncertainties through vertical integration, and increase productivity through downsizing. However, research suggests that mergers have less than a 50%-50% chance of being successful (Pritchett et al., 1997). To comprehend the main reasons for failure, it is essential to recognise the human and organisational implications of such strategies. Moreover, the range of merger/acquisition possibilities would complicate our understanding of merger-related dynamics and outcomes. There are a variety of combination types, which raises a number of different issues for the companies' culture and employees as well as posing problems and possibilities for pre-merger planning and post-merger integration. Therefore, the anatomy of mergers will be conducted through investigating human resource and cultural factors throughout the merger/acquisition process; this would increase our insight of the nature and the implications of such strategies.

This chapter is divided into three sections: The first section will briefly discuss the trend and the history of mergers/acquisitions. The second will be devoted to the mergers/acquisitions motives. The final section will be the core of this chapter as it will discuss in great detail the sequence of mergers/acquisitions and the implications of human and cultural issues at each stage of the merger process.

3.2 MERGER AND ACQUISITION TRENDS

The trend of merger and acquisition activities has been described as occurring in waves. The first merger wave occurred within the US between 1889-1901 in which buyers pursued horizontal integration in the attempt to create monopolies within specific industries. The second wave took place during the late 1920s (this is considered as the first wave within the UK) where the majority of US mergers prompted a move towards vertical integration, most notable within the automobile industry. During this time, the UK was experiencing a wave of mergers, which paralleled the horizontal integration in America during 1990s.

The third wave occurred during the 1960s; this wave resulted in the formation of conglomerates, both in the US and in other parts of Europe. These mergers/acquisitions were fuelled by the advancement of information and communication strategies that enhance the ability of Conglomerate Corporations to tighten its financial control and broaden their organisational structures.

The fourth mergers wave happened during the 1980s. This wave was fuelled by the divestiture of many of the acquisitions during the 1960s as well as the relaxation of anti-trust legislation and industry deregulation. Merger activity remained flat for much of the early 1990s, yet activities in the late of 1990s have been surpassed all existing records, in terms of both the number of the transactions and the size of the deals. In 1998, the ten largest acquisitions occurred with annual global figures exceeding $2 trillion for the first time in history, 50% higher than that of 1989 (Hubbard, 1999; Cartwright and Cooper, 1996; Financial Times, 1998). Moreover, the trend of mergers appeared to have no signs of declining in the future (Hubbard, 1999; Tetenbaum, 1999). This trend has been stimulated by number of conditions, which individually and collectively, can be considered to facilitate and promote the activity of mergers and acquisition in the future, these conditions can be summarised by the following factors. The increasing globalisation that is resulted in removing trade barriers across nations. Moreover, a high level of liquidity due to surplus fund is available within organisations and substantial borrowing capacity from financial institutions is also encouraged by low interest rates worldwide. Furthermore, intensive competition at home and abroad has motivated companies to pursue mergers or acquisitions in order to reduce the competition and control within the market. In addition to the continuous advancement of information and communication technologies, which reshape industrial structures and the way businesses may be managed. Moreover, the increasing pool of potential buyers and sellers available in the global market has fuelled the "mergers mania". This availability of sellers could be attributed to that of the 1990s, which can be deemed a "decade of change", in which a considerable amount of organisations, who failed to cope with such turbulent change and lost their competitive edge. Consequently, they found themselves in the acquisitions and mergers market (Cartwright and Cooper, 1996; Tetenbaum, 1999; Hubbard, 1999; Appelbaum and et al, 2000a; Marks and Mirvis, 1998).

These conditions have generated many opportunities and threats within the global as well as the local market. The continuing popularity of mergers and acquisitions is probably a reflection of the widespread beliefs that these strategies provide the quickest and easiest way of seizing these opportunities and confronting the trends for the purpose of achieving competitive advantage through growth and diversification within a volatile market (Datta, 1991).

However, studies by Porter (1987) and Young (1981) suggested that acquisitions have a high failure rate, where the managers of acquiring firms rate nearly half of acquisitions as being unsatisfactory. Moreover, Ravenscraft and Scherer (1987) found that the profitability of target firms, on average, actually declines after the acquisitions. Furthermore, between two-third and three-quarters of all corporate mergers and acquisitions fail (Lubitkin, 1983; Mirvis and Marks, 1992; Marks and Mirvis, 1998). In Mckinsey & Co.'s study of 58 acquisitions, it was found that in 34 cases, financial returns failed to exceed the cost of capital expenditure and the purchasing company lagged behind the competition in the stock market (Business Week, 1985). Accordingly, the in majority of combinations, one plus one yields less than two. The main question here is: Why do such strategies have high rate of failure?

3.3 CAUSES OF FAILURE OF MERGER/ACQUISITION

The high rate of failure in these strategies could be attributed to the following reasons: The price for the deal is too high, such that the company pays too much to buy the other company or to join a partner and the resulting debt load requires massive cost cutting; this ultimately prevents companies from investing in ways needed to make a combination pay off. A study of several hundred deals in the first half of the 1990s by Business Week and Mercer Management Consulting concluded that inadequacies due diligence and a lack of a compelling strategy thwarted even combinations that were sensibly financed (Zweig, 1995).

The purpose of merger/acquisition also could be another factor, as many companies make acquisitions for shortsighted or wrong reasons. For example, A Federal Trade Commission study of merger motives identified 12 general business reasons why companies make bids but cited that the 13th "the chief executive officer's ego" is as critical as the transaction itself (Carleton a et al., 1980).

Timing is another factor that could play a major role in the failure of mergers/acquisitions. Inappropriate timing of the deal can negatively impact on the companies involved. For instance, Xerox purchased Shugart to diversify its product lines. However, Shugart dominated the 8-inch dick drive market, and its business collapsed when 5.25-inch drives became the industry standard, and one high-tech manager described the deal as 1+1=1 (Marks and Mirvis, 1998).

All of the above factors can contribute to the failure of merger/acquisition. By using bankers, lawyers, and industry consultants, organisations can certainly help to gauge its future partner/purchase determine how much to spend, how to structure the transaction, when to make the deal, and where to position its end products/services in the marketplace. However, by delving deeper into both human and organisational sides of the deal (into the mind sets and motivations of people, and into the dynamics of the combination itself) this would enable us to realise the essence of merger/acquisition failures or successes: the human resource and cultural issues and the way in which such issues are managed. In other words, human resource factors (redundancies, uncertainty, insecurity, stress, anxiety, distrust, low morale) that are often associated with mergers/acquisitions in addition to culture clashes and the way such issues are managed during the merger process represent the main reasons for merger/acquisition failure (these issues will be discussed further in this chapter, chapter 5 and chapter 6).

3.4 MERGERS AND ACQUISITIONS MOTIVES

The literature on organisational motives for mergers rationally emerged from the research conducted in financial, economic and strategic management, was undertaken in the best interest of the organisation and its shareholders.

The literature on mergers and acquisitions motives may be classified into two broad categories (Napier, 1989; Peel, 1995; Cartwright and Cooper, 1996): 1- financial or value maximising motives, 2- managerial or non-value maximising motives. Another broad motive category can be added to this classification as a major determinant of merger/acquisition decision which is the attempt to reduce or to avoid environmental uncertainty (Pfeffer, 1972; Goldberg, 1983; Brenner and Shapira, 1983) (more detail to follow in chapter 4).

According to financial motives, firms will engage in acquisition or mergers if this leads to an increase in wealth for the shareholders of the acquiring company (Auerbach, 1988. Manson et al, 1994). Such motives include increasing synergy through economies of scale or scope; mergers and acquisitions are often pursued to achieve cost reduction and improve organisational effectiveness. The main impetus behind the main cost reduction are economies of scope where conducting multiple tasks increase efficiencies, and increasing the volume of a specific product means that resources are fully utilised and unit cost decreases as fixed costs are divided by larger volumes (Bruton et al., 1994; Millar, 1994; Wahid, 1995). In addition to this, effectiveness can be improved by benefiting from the synergy between merging firms' resources and capabilities. One firm may have certain strengths that another company lacks and a merger allow those strengths to be fully exploited (Garnsey et al., 1992; Johnson and Scholes, 1999). Furthermore, by applying the knowledge and skills from one organisation to another, and by controlling a target firm's management affects future performance (Halpern, 1983; Jensen and Ruback, 1983; Salter and Weinhold, 1979). Furthermore, mergers are often pursued in order to realise value during the transaction time through assets stripping and tax savings (Haspelagh and Jemison, 1987; Kaplan, 1987; Barnett and Wong, 1992). Finally, mergers and acquisitions can be adapted as an alternative to bankruptcy (Tremblay and Tremblay, 1988).

Managerial motives, in other words, assume that there are other reasons for mergers as management seek to maximise its own utility even it is not consistent with the maximisation of shareholders' wealth (Jemison and Sitkin, 1986; Barnatt and Wong, 1992; Mace and Montgomery, 1962). This theory argues that with widening share ownership, and consequently divorce between ownership and control, managers may seek to maximise their own self-interest, which might not be congruent with those of the shareholders (Peel, 1995, Taffler and Holl, 1988). These motives may include increasing sales or asset growth (Halpern, 1983), increasing management's prestige and power (Rhoades, 1983; Williamson, 1964), and using mergers as a way to reduce uncertainty in the firm's external environment (by decreasing managerial risk) (Pfeffer, and Salancik, 1978, Dodd, 1980). For example, some executives are motivated to engaging in takeovers or mergers because of their sense of insecurity and fear of obsolescence (Levinson, 1970). Others may be encouraged by a greedy and egotistical need to exercise power by engaging in empire building (Cartwright and

Cooper, 1996). Such motives may be achieved through size maximisation and mergers and acquisitions is the quickest method of growth. In addition, closely related to this is the "hubris hypothesis" (Roll, 1986; black, 1988), which refers to cases where acquiring managers suffer from an overbearing, optimism or a lack of information that may lead them to pay overestimated price for a target. From Rhoades' (1983) analysis of the merger wave of the 1960s, he concluded that power motives have replaced the profit motives as the moving force behind large companies' conduct. Moreover, Amihud and Lev (1981) found that management control tended to be associated with engaging in conglomerate mergers. Furthermore, Walsh (1988) reported that merging companies have a higher executive turnover than non-merging companies, which support the explanation of mergers in terms of managers' quest for opportunities.

It should be recognised, however, that the managerial theory of motives is not prevalent in small entrepreneurial and family companies, which are managed by the owners or whose management's strategic decisions are closely controlled and observed. In other words, efficiency theory would be the prominent motive for pursuing mergers and acquisitions in such companies (family businesses).

Up to now we have discussed that there are two broad categories of motives that are the driver of mergers and acquisitions. However, it should be noticed that mergers and acquisitions can not be explained by a single theory (e.g. efficiency theory or empire-building theory), but such strategies are often motivated (or can be explained) by a complex pattern of motives (Trautwein, 1990; Steiner, 1975; Ravenscraft and Scherer, 1987). Accordingly, Trautwein, (1990) conducted research that was aimed at identifying the underlying assumptions about the rationale behind merger strategies. A total of seven different theories have been brought forth in Tautwein' research to examine merger motives. These theories are: efficiency theory, monopoly theory, valuation theory, empire-building theory, process theory, raider theory and disturbance theory. His findings (Tautwein, 1990) suggested that mergers explanations could be ordered into three groups. The valuation, empire-building and process theories of mergers have the highest degree of plausibility. The next group is the efficiency and the monopoly theories of mergers. Finally, there are the raider and the disturbance theories, which are rather implausible as well as unsupported by evidence. These results have come to contrast the previous research; Jensen (1984), Weston and Chung (1983), and Wiggins (1981) all supported the efficiency theory against some of the competitor theories investigated in Tautwein's research (1990). He argued that the authors who support the efficiency theory seem to root in their belief in capital market efficiency. However, Roll (1986) and Black (1989) findings did support the inefficiency of capital market for corporate control. Thus, the search for evidence on mergers should turn from market studies and towards studies of companies' actual performance (Tautwein, 1990). The last remark would be synonymous with the problems that have arisen in the literature on merger motives. Napier (1989) reported that there are several problems with a large amount of the literature on motives. Firstly, there is a gap between the merger motives and post mergers consequences, which conduce to the lack of information and knowledge about how mergers might influence the subsequent characteristics of the combined firms in the implementation stage. Secondly, the motives literature neglected to mention the relationship between mergers motives and changes in policy and practice within the firms. The research does not address how the implementation of mergers for achieving economies of scale would influence careers, reporting relationships and compensation policies in both firms. The last, but not least, finance researchers argue that that there are a variety of reasons for mergers and acquisitions, but they overlook what impact those reasons may have on the merger's implementation, more specifically, how they influence human resource aspects.

The last remark has triggered the essence of this study, which is "human resource and culture aspects as success or failure factors in the context of mergers and acquisitions". In other words, this study would close part of the gap that exists in the mergers and acquisition literature by examining the role of human resource and culture issues in the success or failure of such strategies. The next section, therefore, will detail the implications of human resource and cultural factors in the merger/acquisition process.

3.5 MERGERS/ACQUISITIONS SEQUENCE

An effective way of addressing and understanding the human resource problems of the merger syndrome is to conduct an accurate diagnosis of the problems at each stage of the mergers/acquisitions process. Research has indicated that mergers and acquisitions tend to follow a fairly predictable sequence of events (Schweiger, Ivancevich, and Power, 1987; Pritchett, 1985; Sinetar, 1981). Bouno and Bowditch (1989) found seven distinct stages that merger and acquisition process tend to follow:

pre-combination, combination planning, announced combination, initial combination process, formal combination, combination aftermath, and finally psychological combination. Ivancevich et al (1987) viewed merger process as unfolding like the peeling away of the skin of an onion. Each layer is a lot like the previous layer, yet there are some distinct differences. They show five stages unfolding during the merger/acquisition process, these phases are: panning period, in-play period, standstill period, and stabilization period. Marks and Mirvis (1998) perceived the process of merger/ acquisition in three stages: Pre-combination phase, combination phase, and post-combination phase. In this study, it will be viewed the process of mergers/acquisitions consists of four stages: pre-merger stage, merger announcement stage, merging stage, and post-merger stage. Each stage will be discussed in detail as follow:

3.5.1 PRE-MERGER STAGE

This stage consists of the process of merger/acquisition planning and deciding the deal. This phase involves a merger/acquisition related discussion to start to build for the purpose of examination of a possible merger partner, or acquisition candidate. The important aspect of this stage, therefore, is that it is solely preparatory. Financial concerns often dominate this stage (Marks and Mirvis, 1998). The acquirer typically concentrates much on the numbers: what the target is worth, what price premium to pay if any, what the tax implications may be, and how to structure the transaction. Namely, this will preoccupy executive team energies and time on the financial and legal issues at the expense of implementation process. More specific, human resource problems are often neglected or forgotten in this stage as more time and energy is frequently given to the financial and legal issues. This would put the new company on uncertain ground instead of a solid base during the implementation process (Marks and Mirvis, 1992; Schweiger and Ivancevich, 1985). Two interrelated human factors intensify the financial bias (Marks and Mirvis, 1998). One of which is that the members of the "buy team" often come from financial or legal backgrounds. This would bring a financial mind-set to do the deal with financial models and ratios will dominating their judgment regarding synergies. The other factor is that there is a propensity to emphasize the hard financial criteria (numbers, ratios, etc.) at the expense of soft matters (culture differences and human issues) as they often have trivial experiences in both managerial and organizational issues. Once the decision to merge with or to acquire another firm is made, top management's attention should be directed to identify the appropriate integration strategy and to be explicit in attempts to eliminate or minimize inter-firm weaknesses and promote organizational strengths (Berman and Wade 1981; Haspeslagh and Jemison, 1987; Mangum, 1984). Furthermore, during the planning period, an organization's management should spend time and effort for comprehensive examination to determine and understand the organisation's weaknesses and strengths as well as those of its merger partner or acquisition target. However, Bouno and Bowditch's (1989) study of the three organizational combinations, signify that such a straightforward prescription is often overlooked in the assumption that the firms will be compatible and that the combination will be successful if the numbers look good, especially in collaborative and horizontal mergers. Kitching (1967) stated corporate managers believe they know exactly what is being acquired in related mergers or acquisitions and are often lulled into a false sense of security. As a consequence, this will result in neglecting important administrative functions and integration concerns. Moreover, two basic difficulties emerge at this stage. One of which is the technical complexity of merger and acquisition entails the analysis by different experts, both inside and outside the firms. This would result in a segmentation of the merger-related activities and tasks amongst a number of players (Jemison and Sitkin, 1986b). This, in turn, will lead to a difficulty to integrate the two companies because of the sequential and isolated nature of their work and their utilization of quite disparate perspectives and orientations (Bouno and Bowditch, 1989). Another problem is related to the desire of top management to consummate the deal before news is leaked that could produce any organization disorder (Jemison and Sitkin, 1986b). Thus, rather than time being taken for careful analysis of strategic and organizational fit, the combination planning stage is often characterized by agitated activity and perceived need to complete the deal as quickly as possible (Bouno and Bowditch, 1989).

By this stage, such planning is usually attempted in secrecy and rumors frequently start to occur through leaks by internal negotiators or external financial experts (Ivancevich and et al, 1987). Whilst the accuracy of such rumors and informal communication processes tends to vary extensively (Bastien, 1987; Bowditch and Bouno, 1987; Napier, 1989), they are usually sufficient to precipitate stressful perceptions and responses of the impending event (Bouno and Bowditch, 1989). These rumors often escalate to the point where specific departments or divisions are identified as candidates for restructuring, consolidation or redundancies (Ivancevich and et al, 1989). If such trauma is not managed well, the resultant fears whether realistic or not can produce feelings of insecurity, resentment, and depression and lead to turnover of talented people at an early stage of the merger (Levin, 1984; Sansweet, 1983; Bouno and Bowditch, 1989). Napier (1989) in her study of two merging banks stated that although the bank mangers gave employees no official word that there would be a merger, there was a majority at both banks who claimed to have heard about the impending merger before it was announced officially through local newspapers. The result of the rumor was that it spread quickly in the bank before the deal was announced. The literature clearly demonstrates that the combination of uncertainty and the likelihood of change, both favorable and unfavorable, produces stress and tension, as well as affecting the perceptions, judgments, interpersonal relationships and the dynamics of the business itself (Marks and Mirvis, 1985; Schweiger and Ivancevich, 1985; Ivancevich and et al, 1987, Bouno and Bowditch, 1989, Appelbaum and et al., 2000). In addition to this, stress and tension, which are associated with mergers/acquisitions, are determined by employees' subjective perceptions rather than by any objective reality, the sources of such subjective perceptions should be accurately identified by the top management within the context of mergers and acquisitions (Marks and Mirvis, 1985). This is complicated by the reality that executives and employees engaged in the new entity will be faced by three dependent realities. The first is that upheaval event (such as merger) often occurs over which they might have little or no control. This leads to the second level of concern: uncertainty about their future. Therefore, they may face changes in jobs, working relationships and family relationships (Ivancevitch et al., 1987).

Awareness of the potential influence of mergers and acquisitions on employee attitudes, performance and behavior intentions should be supportive for the purpose of anticipating problems during the pre-merger planning process. In a study of hospital patients, Irving Janis found that when hospital patients are forewarned of the pain of an operation and are provided with a realistic preview of their recovery, they recover more quickly and have fewer complications than those without this information (Marks and Mirvis, 1986). Applying Janis's study in the context of mergers/acquisition, we can conclude that it is imperative that employees are forewarned about the merger and its implications once it is over in order for them to recover faster with fewer complications (Appebaum and et al., 2000).

3.5.2 MERGERS/ACQUISITION ANNOUNCEMENT STAGE

This stage would start upon the official announcement of a merger and the associated legal and regulatory process commences. This signals the beginning of the "in-play" phase, which in some merger/acquisition cases, is the most important and emotional phase for both managers and employees (Napier and et al., 1989). As the type of the merger or acquisition as well as the companies and individuals involved become clearer, the nature of the rumors are likely to change from those of planning stage. Because the decision to merge with or acquire another firm becomes reality, more speculations about possible organizational changes will surface in the mind of employees (Ivancevitch and et al., 1987). These speculations often revolve around such questions as, what would a merger or acquisition mean for organizational culture, structure, reporting relationship, reward systems, organizational policies and procedures? (Bouno and Bowditch, 1989). Because mergers/acquisitions often significantly influence these elements (culture, reward systems, etc.), managers and employees tend to be very concerned about any changes in the degree of centralization, standardization and integration of different functions (Evan and Klemm, 1983).

Because strategy and structure are closely related in the minds of people, any change in the structure, and/or strategy results in a significant influence on perception of job security, authority and organizational status, and then on morale and overall motivation and commitment in the context of mergers/acquisitions (Chandler, 1962; Bouno and Bowditch, 1989). During this period organizational members of both companies tend to have various emotions once the company announced the deal. While some employees will be threatened by the mere mention of a merger or acquisition, others interpret the deal as a potential opportunity (Ivancevich and et al., 1987).

One of the basic obscurities that confuse our understanding of merger-related dynamics and outcomes are the range of merger and acquisitions possibilities. There are a variety of merger/acquisition types, which raise a number of different issues for the firms' employees and pose problems and possibilities for pre-merger planning and post-merger integration (Bouno and Bowditch, 1989). As we mentioned above the type of merger/acquisition has a critical influence on the perceptions and rumors of the combination. At the announcement stage, therefore, the employees in both companies will know the type of merger/acquisition decided. This will result in different human consequences based on the type of merger that has been made. Next, and for the purpose of sharpening (richening) our understanding of human implications of each type, some detail will be given about merger types and their human implications.

According to Bouno and Bowditch (1989) Mergers and acquisitions can be distinguished along three dimensions: 1- the strategic purpose of combination decision, 2- the degree of friendliness of the deal, 3- the planned level of integration between the companies involved. Each of the dimensions would be subdivided into various types of merger, which in turn can each have a significant influence. These dimensions will be discussed in the following

3.5.2.1 ESSENTIAL PURPOSE OF MERGER/ACQUISITION

The purpose of merger/acquisition would have a great influence on the way firms integrate their organizational and human resource procedures and policies (Schweiger and Ivancevich, 1987). The Federal Trade Commission (1975) classified five basic types of mergers/acquisitions that would constitute the strategic purpose of such strategies: horizontal merger, vertical merger, product-extension merger, market-extension, and unrelated merger. In this study, and because of the fine difference between horizontal and product-extension and market-extension merger, we merge these three into one type that we called horizontal merger. Horizontal mergers or acquisitions occur when one company merges with or acquires another company that produces the same or closely related products or services in the same geographical market. Vertical mergers occur when the two companies involved have a potential buyer-seller relationship prior to the merger. Product-extension merger or acquisitions occur when the acquiring or acquired companies or merger partners are functionally related in production and/or distribution yet they sell products or services that do not compete directly with one another. This type of merger is often referred to as concentration diversification. An example of such a type of merger would be a soap manufacturer merging with or acquiring a bleach manufacturer (Walsh, 1996). Market-extension mergers occur when the acquiring and acquired or merger partners produce the same products or services, yet they sell them in different geographical market. An example of such a merger type would be a fluid milk processor in Washington merging with or acquiring a fluid milk processor in Chicago (Walsh, 1996). Unrelated (conglomerate) mergers occur when the acquiring and acquired are completely unrelated. An example would be that a high-tech company acquires a food chain. Because the distinction between product-extension, marker-extension and horizontal mergers are quite subtle, human resource implication of these types would be difficult to distinguish.

The underlying purpose of such strategic types of mergers and acquisitions would result in different kinds of synergies and post-merger outcomes: Collusive, operational and financial synergies (Chatterjee, 1986), technical, pecuniary, and diversification synergies (Lubatkin, 1983), financial and operating synergies (Rumelt, 1974). Therefore, the employees concerns and tensions as well as the retention of key organizational members would be a function of the strategic type of merger or acquisition decided and the types of synergies desired. The underlying purpose of horizontal merger is the achievement of significant economies of scale and operating efficiencies by combining the two companies resources. Such operating synergies would be achieved through the reduction of the workforce and the integration of similar departments and functions (Hopkins, 1983). Accordingly Walsh (1988) argues that top management turnover will be higher in related (horizontal) merger/acquisition than in unrelated, conglomerate type. He argues that in related merger/acquisition parent company's management is already familiar with the target firm's business, so it can afford to lose members of the acquired company's top management, which they would replace by its own management team. The same scenario would hold for middle managers, supervisors, and lower-level personnel in overlapping roles.

Conglomerate acquisitions, by contrast, involve much less trauma and stress, as retention of key management personnel appears to be more important. This is because the acquiring company cannot afford to lose the product and market experience and expertise of the target firms' management (Pitts, 1976). Especially if the acquiring firm's management is unfamiliar with the target organisation's business, it is likely that steps will be taken to retain these individuals (Walsh, 1988). The same dynamic seems to hold for middle managers and supervisors.

3.5.2.2 THE DEGREE OF "FRIENDLINESS"

The degree of friendless influences the perception of employees involved in a merger or acquisition. This is because the atmosphere surrounding the merger or acquisition exerts a significant impact on the type of problems that are most likely to occur and the severity of associated organizational and human resource difficulties (Pappanstos, and et al., 1987). Pritchett et al., (1997) suggested a framework that categorize merger and acquisition into four broad classes based on a cooperative-adversarial continuum: organizational rescues, collaborations, contested situations and raids. According to this framework, rescue represents the most cooperative interface between acquirer and target company. And the other end of the continuum is the corporate raid, the most adversarial takeover situation. These four scenarios involve adjustment problems. However, the type of acquisition or merger determines to a large extent how severe the blow is, how long the trauma lasts, and the extent of damage to corporate health (Pritchett et al., 1997).

i. Organisational rescue situation

This category is characterized by one company asking for the aid of another. Pritchett et al., (1997) identified two basic forms of rescue: financial salvage and a friendly alternative to a hostile, unwanted takeover (white-knight). In both cases, the acquired company is looking for some form of relief. In the financial salvage situation a merger /acquisition is actively sought to bail the company out of financial danger. Since the situation requires a financial turnaround, this could entail closing a plant, spinning off a division, reducing the work force, or implement other forms of cost-reduction decisions. Research has suggested that mergers and acquisitions are useful mechanisms through which the market can replace incompetent managers in the failing companies (Mandelker, 1974). Rescue by a "white-knight", in contrast, does not necessarily mean that the target firm is in a financial difficulty. In fact, the company is often doing well in both financial and managerial perspective, but when they faced a hostile takeover from an unwanted company, companies often seek another company to save them from the enemy. Since time pressures rarely allow enough analysis in the context of white night, this situation often produces a number of post-merger concerns (Pritchett, 1985; Ingrassia, 1982).

ii. Collaboration situation

According to Pritchett et al., (1997) most mergers and acquisitions are collaborative in nature. In this situation, the two companies engage in the negotiations with a sense of goodwill and diplomacy. These mergers tend to create an atmosphere of mutual respect and understanding, especially among those consummating the deal. These mergers, however, are not free from human resource problems and difficulties. Bouno and Bowditch, (1989), found that there is often a significant amount of resistance on the part of the members of both companies to the cultures, operating systems, and managerial orientation of the partner companies, even if this merger is classified as collaborative in nature. Pritchett (1985), calls this dynamic a collaborative backlash; if not managed effectively, it can give the friendliest consolidations a contested atmosphere.

iii. Contested situation

The distinguishable difference between this acquisition/merger approach and collaboration is that in a contested situation only one of the two parties has a strong interest in making the deal, or the two parties want very different deals. In this situation, the negotiation can become very aggressive. There is plenty of resistance, but it is more depersonalized than that found in the raid situation. In a contested situation, the battle between the two companies remains more logic-based and not as emotional as it is in the raid (Pritchett et al., 1997).

iv. The raid situation

This type is the most adversarial form of acquisition. The hostile takeover produces the greatest amount of uncertainty and resistance on the part of target firm (Pritchett et al., 1997; Rennert, 1979). The propaganda mills in both companies produce charges and countercharges and accurate communication is scarce. The aim of the management of a target company is to generate a strong antagonism among its employees, shareholders and other stakeholders toward the corporate raider. There are a number of tactics that target company could use to ward off the raider. These tactics would range from "Shark Repellent" (Beam, 1987b), "Poison pills" (Michel and Shaked, 1986), and "Pac-Man response" (Berg, 1984). These defense tactics intended to ward off the corporate raider do not vanish in the event that it fails. The raider clearly produces a winner-loser situation, yet the fight and its consequences often extend over what appears an indefinite length of time (Pritchett et al., 1997). As a result, this would encourage the best and brightest employees of the target to flee to the friendlier setting and the most talented employees would leave first in the aftermath of the hostile acquisition. The raider situation, therefore, creates some of the difficult human resource issues as any employee who remains with the raider must be able to quickly end one employment relationship and form another (Perry, 1986).

The degree of friendliness involved in the merger/acquisition is an essential determinant of how employees and managers responsed to the combination. Pritchett et al., (1997), states that the intensity of resistance to the merger/acquisition and the amount of resources (money, time, energy) devoted to fight the merger increases as one moves along the continuum from a rescue to a raid. In other words, rescue and collaborative deals would be perceived as a successful venture by the acquired firm. At the other extreme, contested and raid merger/acquisition typically create a high level of antagonism, adversarial interactions, and prolonged opposition during the post-merger period.

3.5.2.3 THE DEGREE OF DESIRED INTEGRATION

Some degree of integration is often essential for mergers/acquisitions to achieve their objectives (Schweiger and Ivancevich, 1987; Shrivastava, 1986). Although the basic rationale of a merger or acquisition implies that the two companies are completely assimilated into each other or one company is absorbed by the other, a number of possibilities exist. Post-integration situations for different companies can range from total autonomy to total assimilation, with a number of points in between (American Banker Association and Ernst & Whinney, 1985; Jenster, 1987; Management Analysis Centre, 1983). In this regard, Jenster (1987), suggest nine levels of integration along a continuum: 1- investment only; 2- financial control; 3- central services; 4- limited decision making; 5- retained decision making; 6- many strategic decision; 7- all strategic decision; 8- many operating decision; 9- fully integration firm. It is expected that the strategic purpose of a merger or acquisition (vertical concentration, horizontal concentration, and conglomerate) is closely related to the degree of integration desired (Napier, 1989). If, for example, the strategic purpose is to engage in conglomerate merger or acquisition, the degree of integration effort tends to be a minimum, and perhaps focusing only on financial issues (Wallum, 1980; Napier, 1989). In a horizontal merger/acquisition, by contrast, the purpose is often to achieve essential operating efficiencies and economies of scale, which entails a much greater degree of integration (Porter, 1985). Other scenarios could occur, for instance, a conglomerate engaging in an unrelated acquisition strategy might bring about operational changes within the acquired company if it believes that the target company can be operated more effectively by such changes (Morris and Johnson, 1985, Perry, 1986). By the same token, a horizontal acquisition can still result in fairly autonomous operations in the purpose of achieving financial objectives rather than outright integration (Amarican Bank Association and Ernst & Whinney, 1985).

The degree of desired integration has a great impact on the extent of change in the human resource practices and policies in each company (Napier, 1989). Conglomerate acquisition, for example, often aims at limiting integration to financial criteria, rather than human resource practices and procedures. Namely, the traumas and tensions associated with such acquisition would be minimal. Similarly, horizontal merger often entails highly operational integration between the two companies, which require great changes in the human resource and cultural issues. Namely, the traumas and tensions are often associated with such a situation would be high.

3.5.3 MERGING PROCESS STAGE

This phase is characterised by organisational instability, which results in a growing number of questions about structural, cultural and role-related changes and concerns, also political game playing can be widespread in many combinations as individuals jostle for power and position (Bouno and Bowditch, 1989; Marks and Mirvis, 1998). The process of actually merging two companies would produce various concerns among employees about the basic company values and beliefs and the potential disruption of social ties and relationships. This would generate a sense of loses among organizational members as they are preoccupied with the shifts in the organizational' norms and threatened by the potential changes in the traditional ways of doing things. At this stage the cultural issues becomes salient in the minds of people. Because culture is embedded in our lives, and we are unaware of it until it comes into conflict with a different culture (Hall, 1959). Mergers and acquisitions accelerate such conflict and lead to a process of cultural learning that heightens organizational members' awareness of their own culture and highlights the differences between the companies involved in the merger/acquisition (Sales and Mirvis, 1984). The actual or potential loss of organizational identity, job responsibilities, a valued-co-worker, and work procedures can prove anxiety provoking and disruptive to people's lives (Buono and Bowditch, 1989). Clearly, the dynamics of merger/acquisition strategies can produce personal stress and anxiety for individual employees as well as organizational stress (Humpal, 1971). Merger and acquisition strategies often entail merging different organizational components that seem to be similar in terms of task objective or formal structure, yet informal arrangement, management style, and other cultural issues are rarely, if ever, the same across organizations. The upshot is significant tensions and stress since these different cultures clash with each other (Buono, and et al., 1985). It is at agreement that all mergers and acquisitions imply a level of concern about structural, cultural, and role-related changes, yet the actual impact of these uncertainties and related stress and strain is a function of strategic purpose of merger/acquisition in question, the degree of friendliness involved, and the level of integration desired (Buono and Bowditch, 1989).

Culture clashes, which occur in the merging stage, have a great influence on the members of the companies involved in merger/acquisition. Culture, image, and identity are at stake in a cultural integration, and employees will feel a great sense of loss. Their pride and confidence may be shuttered. They may had many successes in the past with their existing company, but now they have to accept different ways of doing things. The uncertainty and expectation of change may encourage them to look for employment elsewhere (Appelbaum, and et al., 2000). Marks and Mirvis (1992), stated that: "nearly 50% of the executives in acquired companies seek other jobs within one year and another 25% planned to leave within three years". Furthermore, people who are affected by a merger or a change of ownership become detached and too cynical about the intention of the new owner or management to be successful. Besides, those who lose something in the cultural game tend to protect their situation and resist change and try to maintain the status quo while ensuring they are in dispensable to the new organization (Marks and Mirvis, 1985). If the cultural issues are not adequately taken into consideration at early stage of the process, there will be little time to manage it after the deal is done (DeVoge and Spreier, 1999). Cultural issues should be addressed and planned at early stages of merger process -during the planning and announcement stages. The most striking question that should be answered at early stages of the merger process is "which model of organizational culture should be executed?" (The Advisory Board Company, 1997). The options include:

I. Using one or the other culture.
II. Creating a culture that incorporates the strongest aspects of either culture.
III. Creating a completely new culture that does not use either culture as its base.

Weber (1996), found that that the greater the cultural differences between the top management teams to be combined, the lower the effectiveness and the lower the financial performance of the finalized merger. A particularly important factor impeding post merger integration is the perceived differences between the two companies' cultures. According to Marks and Cutcliffe (1988) employees at all levels often come to regard the norms, procedures, polices, and systems of their own company as superior to those of their counterpart and begin to denigrate the other company' style or accomplishments. This would enhance the usage of a "they versus we" comparison at any opportunity pointing out any differences between the target and the acquirer. The inevitable reaction to such dysfunctional comparison is lack of cooperation and, sometimes, outright animosity between members of merging firms. The first step in dealing with the differences and potential constraints of the cultures of organizations is to acknowledge their presence (Sathe, 1985; Shrivastava, 1985, 1986). Unfortunately, most organizations that intend to pursue mergers/acquisitions fail to make explicit effort to identify and assess their own culture and the characteristics of their merger partner or acquisition target (Buono and Bowditch, 1989). The problems of cultural differences would be exacerbated if we know that in typical mergers/acquisitions, culture building is an afterthought. Executives downplay the significance of cultural differences in mergers/acquisitions through offhand comments: "we are the same kind of people", "We are all bankers, so there is no culture clash" (Marks and Mirvis, 1998). A number of studies conducted in merger/acquisition in a variety of countries found that senior executives rate "underestimating the importance and difficulty of combining culture" as a major oversight in integration efforts (Marks and Mirvis, 1998). In this regard, it is relatively easy for executives to be misled into believing that their counterparts in another company have similar philosophies about running their business and managing people. The reality, however, is often quite different (Daniel, 1999). In a British study of forty acquisitions, all companies conducted a detailed financial and legal audit of their intended target. However, none of them made any endeavor to review the target human resources to assess the talent they were acquiring or to identify cultural norms (Hunt, 1988). Furthermore, a survey of French and German managers involved in acquisitions and alliances found that technical issues were less instrumental in producing conflicts and clashes in work relationships than the differences between the two countries in planning, authority, commitment, monitoring and teamwork, namely, the differences in cultures between the two merging companies would lead to clashes and conflict. More than 50% of the sample reported that the cultural differences resulted in tensions and stress. Yet, senior executives did not consider such cultural differences important enough to assess (Harper and Cormeraie, 1995).

3. IMPLICATIONS ON HUMAN RESOURCE AND CULTURAL FACTORS IN THE MERGER/ ACQUISITION PROCESS

Neglecting the differences between merging companies cultures could be attributed to the following reasons:

I. Cultures are too elusive and hidden to be accurately diagnosed, managed, or changed (Uttal, 1983).

II. It needs difficult techniques and rare skills and a long time to understand a culture (Uttal, 1983), and then much more time to change them, so culture change is not a practical endeavor (Schwartz and Davis, 1981).

III. Corporations have multiple, not single cultures, and it is hard to imagine how all of these diverse cultures can be homogenized (Barley and Louis, 1983).

IV. Cultures sustain people through life' difficulties, and one of the chief ways they do this is by providing continuity; thus, it is natural for people to resist changes in their culture (Beyer, 1981; Boje and et al., 1982; "corporate culture...", 1980).

Culture clashes would be exacerbated if neglecting such an essential issue are dominant in the context of mergers/acquisitions. Such an oversight would create a "we versus they" relationship, with tendency for people to exaggerate the differences rather than the similarities between the two companies involved in merger/acquisition. These differences can arise because of different perspectives. For example, one company can be viewed as centralized and the other decentralized; also, one company can be seen as valuing risk-taking Whilst the other values risk-aversion. One company can be concerned exclusively with results whilst the other is primarily concerned with people. Finally, one company can be regarded as flexible and adaptable whilst the other is bureaucratic (Daniel, 1999). If such differences were not managed well from the planning stage of the merger/acquisition, conflict instead of cooperation and fighting rather than uniting would be dominant in merger integration stage, which could be continuing during post-integration stage, this would abort the merger/acquisition strategies from achieving their objectives. This could explain partly the higher rate of failure in the context of mergers and acquisition. Employees productivity is negatively impacted when do not know their standing within the new organization, i.e. in terms of possible layoff (Smye and Grant, 1989). Moreover, as time passes and no explanations are giving, employees revert to the former culture and delay in the post-merger process (Sherer, 1994). The most important way to implement a merger and change a culture successfully is to be open and honest with employees. In this way, employees are better informed and qualified to handle the disequilibrium that was caused by the merger/acquisition. This openness and dissemination of honest and timely information about future changes in organizational structure and culture would have the effect of reducing employee stress and tension level (Smye and Grant, 1989).

3.5.4 POST-MERGER STAGE

After the formal combination of two firms, there continues to be high level of organizational instability, which could be compounded by a lack of cooperation among organizational members and a "we versus they" mentality between groups. Cultural and role ambiguities tend to be high (Buono and Bowditch, 1989). In the post-merger period, in comparison with the previous stages, employees are no longer worried about future employment but instead they worried about the scope of new tasks and responsibilities, the personalities of their new bosses and co-workers, and where they stand in the new organization (Marks and Mirvis, 1992). After a combination, Marks and Mirvis (1998), found that executives complained their best talents had bailed out, productivity declined dramatically, and culture clashes remained prevalent. They attribute such dysfunctional problems to a lack of effective planning from the early stage of the merger/acquisition and hurry the implementation process to realize short-term gains.

During this stage, there is a danger of what is referred to as "merger standstill" or "post-merger drift" (Ivancevich and et al., 1987; Siehl, Ledford, and Siehl, 1986; Pritchett, 1986), as management struggles with the actual integration of the two companies and resolves regulatory hurdles (e.g., Justice department, State law). This process can take years to resolve and typically manifested in decreased productivity and operating effectiveness (Buono and Bowditch, 1989). Even in the best of circumstances, mergers can so change the nature, orientation and character of one or both of the merger partners that five to seven years are typically needed for employees to feel truly assimilated in the merged entity (Marks and Mirvis, 1985, 1998; Buono and Bowditch, 1989). Due to these many changes, the post-merger period witnesses many problems of adjustment (Mirvis and Marks, 1992). Some of these adjustment problems arise from employees' fear over the loss of situational control, the possible loss of their job, and moving into the realm of the unknown with a new manager and a new team. All of these adjustments are disconcerting and anxiety-provoking (Mirvis and Marks, 1992).

Employees during this period may seem to be more dependent on others rather than self-sufficient. This may be true for only short period yet new managers should not interpret such behavior, as they are weak and vulnerable (Mirvis and Marks, 1992). The new managers have to provide team leadership to help the employees to cope with "survivor syndrome". Davy et al., (1989), suggested three stages through which survivors progress after a layoff:

I. A sense of suffering, brought on by change, heightened job insecurity and the loss of friends and companions;
II. A neutral stage, a sort of healing time;
III. A time when survivors adjust and become productive employees again (Boroson and Burgess, 1992).

A crucial way that an organization can use to prove to their employees that their fate and happiness matters is the manner in which they treat their terminated employees. If the way with which they were laid off was fair and humanistic, the survivors' stress and tension level will be decreased since they will realize that should they be laid off, they will not just be left on their own (Schweiger et al., 1987). Moreover, if the survivors appreciate that their organization cares and tries to take care of them, they will experience less stress and anxiety. This reduced stress level can result in more productive employees and an easier transition for all. The bottom line: managers can "pay now" by investing in systematic post-merger team building, or they can "pay later" and lose key talents and produce disappointing results (Marks and Mirvis, 1992). Therefore, planning and implementing the post-merger stage is critical in reducing the stress level which if heightened could severely damage the newly merged company if the survivors psychologically sabotage the operation.

3.6 CONCLUSION AND SUMMARY

While economic, financial and environmnetal problems can contribute to the relatively low incidence of merger/acquisition success, attentions have begun to shift toward human and cultural ramifications and the management of the combination process as the critical success factors in the mergers/acquisition strategies. In fact, most of the problems that adversely affect the performance of a merged company suggested to be internally generated by the acquirers or merger partners and by dynamics of the new entity (Yunker, 1983). The reality may be that many merger/acquisition related dificulties are simply self-inflicted. Therefore, there is a significant need to go beyond strategic, financial and legal considerations to examine the organisational dynamics, human and culture issues that emenrge during the merger process.

Generally mergers/acquisitions tend to unfold in a seguence of stages. Each stage shows distinct types of uncertainties and ambiguities. In other words, different cultural and human implications will be occurred in each stage of merger/acquisition process. Clearly, merger/acquisition, by their nature, can introduce a high degree of stress, conflict and tension along a number of dimensions into the lives of organisational members. In addition to this, the different levels and types of ambiguity during the different stages of a merger suggests that focused interventions are necessary to ensure that organisational members are able to adjust to changing organisational situations through a merger process.

This chapter, therefor, explicitly has examined the human and cultural implications in each stage of a merger/acquisition process. Organisational motives that drive companies to pursue merger/acquisition strategies are also covered in this chapter. One of the main determinant (motive) of merger decision is to cope with the environmental uncertainties created by the rapid change and the volatility of the external business environment. The next chapter will discuss this factor (determinant) and the way competitive advantage can be realise in the context of merger/acquisition.

Chapter 4

4. BUSINESS ENVIRONMENT AND MERGER/ ACQUISITION AND SUSTAIN COMPETITIVE ADVANTAGE

4.1 INTRODUCTION

The previous chapter (3) in addition to the next two chapters (5 and 6) are devoted to the discussion of human resource and culture issues in the context of mergers/acquisitions and the mechanism by which such issues are managed effectively. In other words, internal issues (environments) in the context of mergers/acquisitions are discussed in this literature review. This chapter will be involved with discussing the external environment as an important determinant for pursuing merger and acquisition strategies as well as the way a company can sustain competitive advantage in the context of mergers and acquisitions.

One of the most prominent ideas involved with strategic management and organisation theory is that an organisation's strategy must fit its environment (Tan, 2002). For the duration of the past four decades, a growing number of theorists (see, for example, Bettis and Hitt, 1995; D'Aveni, 1995; Emery and Trist, 1965; Hamel and Prahalad, 1994; Sampler, 1998; Terreberry, 1968, Toffler, 1970) have argued that organisational competitive environments are evolving at an accelerated rate that require new organisation forms, strategies and processes. The conceptual work of Emery and Trist (1965) suggested that environments evolved from a first type (placid and randomised) through to a fourth (turbulent field), and that they may evolve even further, to became more turbulent. McCann and Selsky (1984) adopted this view through describing a fifth type of environment, labelled a "social vortex", which is characterised by hyper-turbulence. Recently, the privatisation of previously state-owned or dominated economies encourages both local and foreign investments (Harrison et al., 2001). Toffler (1970) argued that technological advancements led to environmental changes and the generation of new knowledge. D'Aveni (1994) claimed that factors such as globalisation, worldwide communication channels and enhanced information processing capabilities have created a world of "hyper-competition", with levels of complexity and dynamism similar to those of the turbulent field first describe by Emery and Trist (Brahm, 1995; Pitt and Morris, 1995, Webber; 1993; Castrogiovanni, 2002).

Therefore, organisations in such environments will increase their interdependencies with one another instead of competing for scarce resources. Thus, competitive environment become more complex as the number of inter-organisational connections increase, and they become more dynamic after the effects of disturbance. Accordingly, the common factor driving these trends is that in a hyper-competitive environment with increasing globalisation, it is difficult for a single firm to possess all resources needed to develop and sustain current competitive advantages while trying simultaneously to build new ones (Child and Faulkner, 1998; Dyer and Singh, 1998; Pfeffer and Salancik, 1978). More clearly, in order to gain and sustain competitive advantage in such turbulent environment organisations need to combine or cooperate with one another organisations (Harrison et al., 2002). This could partly explain the popularity of merger and acquisition strategies as well as cooperative arrangements in the last two decades, even if the results of such strategies have not lived up to organisational expectations. In other words, merger and acquisition strategies were used for the purpose of control and to manage uncertainty created by the highly interdependence between organisations and their environments.

To cover environment issues in order to gain and sustain competitive advantage in the context of merger/acquisition, this chapter is divided into five main sections: The first section discusses the dimensions of a typical business environment. The second section is devoted to mergers/acquisitions and environmental uncertainty. The third section presents the components of external environment, which in turn is divided into two subsections: Macro environment and microenvironment (Porter's competitive environment). Organisational coherence is the subject of the fourth section. Finally, gaining and maintaining competitive advantage in the context of mergers/acquisitions is the subject of the fifth section.

4.2 DIMENSIONS OF EXTERNAL BUSINESS ENVIRONMENT

Organisational theorists emphasize that organisations must adapt their environment if they are to be viable. One of the central issues in this process is coping with uncertainty (Crozier, 1964; Thompson, 1967). Thomas's (1996) theory is based on the D'Aveni's theory of hyper-competition and contended that a shift toward that state (hyper-competition) began in the late 1960s and continued thereafter. Thomas clearly argued that competition tends to increase linearly over time, at least until it reaches a point at which "static competition" (where indicants of industrial competition are inversely related to performance) gives way to "hyper-competition" (where indicants of industrial competition are related less to performance because competition stimulates innovation amongst some firms which, in turn, leads to superior performance among those firms) (Castrogiovanni, 2002).

Before identifying the dimensions of the external business environment, it is important to distinguish between internal and external environments. According to Duncan (1972, p.314), "environment is thought to be as the totality of physical and social factors (influences) that are taken directly into consideration in the decision-making behaviour of individuals in the organisation". Based on this definition of environment, the difference between the internal and the external environment can be clarified as follows:

I. Internal environment: consists of those relevant physical and social factors within the boundaries of organisation that are taken directly into consideration in the decision-making within that organisation (Duncan, 1972), and members of the organisation have a high influence factor and control over such factors.

II. External environment: consists of those relevant physical and social factors outside the boundaries of the organisation that are taken directly into consideration in the decision-making of the company (Duncan, 1972), yet members of that the organisation have little influence or control over such factors. Thus, organisation has to merely cope with the external environment.

The ability of an organisation to cope with its external environment, mainly, relies on the predictability of such an environment. More clearly, the degree of perceived uncertainty determines the ability of an organisation to cope with it. Based on the literature regarding an organisation's external environment by organisational theorist, (Emery and Trist, 1965; Thompson, 1967; Terreberry, 1968; Duncan, 1972; Castrogiovanni, 1991, 1996, 2002), there are three environmental dimensions often studied, which are: (1) Munificence, (2) dynamism, (3) complexity. These three dimensions make up key factors affecting uncertainty (Lawrence and Lorsch, 1967).

4.2.1 ENVIRONMENTAL MUNIFICENT-SCARCE DIMENSION

It is the extent to which the environment provides sufficient (short) resources to enhance (impede) established organisations and new entrants, and to enable (impede) them to grow and prosper (Child and Kieser, 1981; Randolph and Dess, 1984). According to the traditional economic assumption of scarce resources, munificence tends to decline as relatively fixed levels of resources become increasingly exploited (Malthus, 1809; Ricardo, 1819). However, current theorists argue that the resource scarcity assumption does not hold for intangible resources such as knowledge and information (Hunt, 2000). Within this view, few resources are scarce in the economic sense, as knowledge and information can be used to substitute for other resources, or enhance access or utilisation of other resources. In fact, an organisation's population, industry, and product life cycle models rely on the assumption of resource scarcity, and receive empirical support (Castrogiovanni, 2002). Population ecology studies have shown that an organisation's population growth tends to an elongated S-shaped pattern, the proponents have moulded that pattern due to the limited availability of resources (e.g., Hannan and Freeman, 1988). Others (e.g., Porter, 1980) have attributed such patterns to the advancement of technology that reduced demand for an industry's product or enhance the substitutability of products from outside the industry, and in that sense the environmental munificence would decline in that industry (Hofer, 1975). When a technological innovation creates a new industry, initial adopters of the industry grow and flourish, and their success encourage imitators to enter the industry (Brittain and Freeman, 1980). Consequently, industry members increase their exploitation of available resources until the resource usage of the population of industry members reaches the limited environmental capacity (Castrogiovanni, 2002). In short, the environmental munificence tends to decrease over time as new (external) entrants enter the market in order to compete for scarce resources

4.2.2 ENVIRONMENTAL STATIC-DYNAMIC DIMENSION

It indicates the degree to which the factors, (comprising of the business environment) are in a continual process of change or remains basically the same over time (Duncan, 1972: 316). There are three interrelated forces that can be attributed to the idea of environmental dynamism. The first issue is the interdependence between an organisation and its environmental elements. Emery and Trist (1965) stated that interdependence among environmental components tend to increase, which in itself increases dynamism, as those components are joined together for the common interests. Interdependence increases as one collective strategy within an organisation is pursued in an effort to imitate or negate the advantage brought about by a previous collective strategy elsewhere within the system (Astley and Fombrun, 1983). In other words, as a system becomes increasingly interconnected through such collective strategies, changes in one part of the overall system increasingly influence other parts of the system (Emery and Trist, 1965). For example, if a one company attempts to penetrate a market segment through low price, other competitors would respond to such move, their response would reverberate throughout the interconnected system, for instance, a price cut by that company could start a price war amongst competitors. Thus, the interdependence amongst environmental components would enhance the dynamism of the external environment.

A second issue is that knowledge accumulation would drive environmental dynamism. Toffler (1970) suggested that the accumulation of knowledge over time accelerates environmental change. For example, if we realise that the knowledge accumulated in the field of physics evolved through thousand of years before Einsein developed his theory of relativity. Einstein's theory, in turn, contributed to the development of the atomic bomb within just a few decades, and that development soon led to further advances in nuclear weaponry, energy, and other related fields. Furthermore, Toffler observed that new knowledge directly relates to the processes through which knowledge is gained and disseminated, and further enhances the rate of change in the organisation environment. For instance, technological developments in information processing and communication have increased the speed at which management researchers can perform word processing, data analysis, and various other aspects of their research efforts.

The last force results in the hyper-competition within industries and escalates the environmental change. D'Aveni (1998) cited four influences driving hyper-competition: (1) falling entry barriers as a result of joining the World Trade Organisation (WTO), this in turn would enhance the interdependence amongst national economies. (2) Deep pockets, which pertain to situations where producers, financers, and sometimes governments join together to form a collective strategy. (3) Technological revolutions, whose influence follows from the knowledge accumulation perspective discussed above. (4) Consumer expectations, which is the influence related to customers becoming more knowledgeable and demanding in their purchasing efforts.

In short, interdependence and knowledge accumulation would result in severe competition within and across industry boundaries, which leads to accelerated rate of change. At an organisational level, the product lifecycles become shorter and new product introductions occur at increasing rates. At an industry level, sales fluctuate unpredictably as competing industries involve themselves in a tug-of-war in order to capture a limited customer base. Therefore, Castrogiovanni (2002) hypothesized that environmental dynamism tends to increase over time, or is time sensitive.

4.2.3 ENVIRONMENTAL SIMPLE-COMPLEX DIMENSION

It indicates the number and the degree of heterogeneity of the factors comprised within the environment (Dungan, 1972). As previously discussed, interdependence and the accumulation of knowledge as well as severe competition forces, escalate the dynamism of the environment, which results in these forces having a simultaneous impact on the complexity of the dimensions involved in the process. Technological advancements would lead to new product variants and competition ways of working. This in turn could lead to greater heterogeneity among industry members (Thomas, 1996). Telecommunications, for example, have facilitated international trade so that the range and heterogeneity of the countries represented in the marketplace increased (Mitchell and Mulherin, 1996). Because industries become more interrelated with one another (Emery and Trist, 1965), technology based industries become less useful for studying rivalry among organisations as many organisations find that their biggest competitors utilise an alternative technology and thus fall into a different category (D'Aveni, 1994). Moreover, organisations within a given industry may specialise less within that industry and increasingly offer products fitting other industry categorisations (Hatfield et al., 1996). Therefore, the range and heterogeneity of competitors, suppliers, customers and other environmental components increases because an organisation has to consider elements outside its industry as well as those within.

According to the discussion above it can be concluded that the current external business environment is characterised by high uncertainty, through the dynamism and the complexity of the environment, which increases over time, whilist the munificence dimension decreases over time. Companies that operate under such turbulence conditions have to pursue appropriate strategies that could enable them to cope with the dynamic, complex, and scarce resources within the business environment. Mergers/acquisitions strategies could represent an appropriate way for companies to control and manage the uncertainty within a business environment.

4.3 MERGERS/ACQUISITIONS AND ENVIRONMENTAL UNCERTAINTY

The management of environmental demands does not in itself imply that the organisation has to comply with such demands. Sometimes compliance to the environmental demands, although important for maintaining an immediately critical exchange relationship, may not be in the long-term interest of organisation. Compliance means a loss of discretion, a constraint and an admission of limited autonomy (Pfeffer and Salancik, 1978).

There are two broadly defined contingent adaptive strategies one is the adaptive strategy that an organisation can adapt and change to fit its environmental requirements. The marketing concept (Kotler, 1994) is an example of such a strategy. According to the marketing concept, a firm first must assesses the needs of the customers and then modifies its products and production system order to fulfill those needs. Alternatively, the environment can be changed so that it can be compatible to a company's capabilities and structure. This strategy is consistent with the notion of "demand creation" Galbraith (1967).

A number of tactics can be used by companies to influence or control environmental uncertainty. One tactic is that organisation create the environment to which it adapts is through market segmentation in which the company selects the market segment that it can serve well, and excludes other elements of the environment, which the company cannot operate within. Another tactic is that organisations can lobby to have governmental control within the environment or can persuade established regulators to create favourable environmental markets in which to operate in (this tactic is considered unethical). Moreover, engaging in strategies of diversification whether total absorption of the environment as in the merger, or partial absorption as in cooperation (joint venture, strategic alliance) represents another alternative for companies to affect its environment (Pfeffer and Salancik, 1978; Pfeffer and Nowak, 1976; Goldberg, 1983; Pfeffer, 1972). In the remaining section a discussion of merger/acquisition strategies as a way to control and to manage environmental uncertainty is undertaken.

The influence of the environment on the organisation has been widely discussed by Thompson and McEwen, 1958; Evan, 1966; Katz and kahn, 1966; Thompson, 1967. Most major organisational transformations take place in response to shifting environmental demands or opportunities (Hackman, 1984; Kilman et al., 1988). Clearly, when the environment is relatively stable and predictable, organisations tend to maintain routine and well-defined structures and processes of work (Perrow, 1970). Thompson (1967) hypothesised that organisations attempt to manage their external dependencies or to control its environment. Moreover, Hawley (1950) understood the importance for organisms to attempt to control their environments, and he suggested that they should employ growth strategies. Katz and Kahn (1966) stated the importance of growth strategies as a way of managing or controlling the uncertainty of the environment for companies to survive and prosper. Starbuck (1965) proposed that organisations operate on their environment in a way that makes them more munificent. Pfeffer (1972) provided evidence that merger strategies were pursued in order to manage the uncertainty that exist in the external environment and was used as a response to organisational interdependence.

The uncertainty created by changing environmental conditions is quite influential in merger and acquisition decisions (Brenner and Shapira, 1983). Pfeffer and Nowak (1976: 415) found that "considerations of managing interdependence with the environment could account for some of the variance in the observed pattern of joint ventures and for variations across industries in the extent to which sales or purchase interdependence could explain these patterns". More clearly, they found that organisations attempted to establish stable, predictable patterns of interaction with other organisations in their environment through cooperative arrangements or merger strategies. Goldberg's (1983) study supported the hypothesis that uncertainty avoidance was defined as a major factor in the development of merger strategies. He suggested that, in order to cope with environment uncertainty, the organisation's decision makers should set a "constraint minimisation" objective.

Technological advancements have shortened the time it takes to design, manufacture, promote and deliver a product or service to the marketplace. Thus, competitors will quickly replicate the best new product ideas. Many companies opt to buy rather than taking to control the uncertainty exists in the technological environment. Social, economic and demographic shifts, (which result from factors that out of company's control) also may be viewed as threats or opportunities that could force the company to manage such shifts through merger/acquisition strategies (Clement and Greenspan, 1998). Barney (2002) stated that under conditions of high uncertainty merger/acquisition strategies and cooperative arrangements would provide quick and save options for companies to move into a market if valuable opportunities present themselves.

Three types of merger/acquisition can be employed for controlling and managing environment uncertainty (Pfeffer, 1972); Vertical mergers/acquisitions (backward or forward) are associated with attempts to absorb industry interdependencies and reduce supplier-distributor uncertainty; whilst horizontal mergers/acquisitions have been described as a strategy used to reduce competitive uncertainty. Finally, conglomerate acquisitions are partially explained by the motive to reduce the risks posed by the uncertainties in a specific industry through diversification.

From the discussion above, we can argue that a major determinant of merger/acquisition decisions is the attempt to reduce or avoid environmental uncertainty. In other words, the larger the degree of uncertainty, the greater the tendency to pursue merger/acquisition strategies. Therefore, managing external environment through analysing and recognising the opportunities and threats emerging from such environment is crucial for the success of merger/acquisition decisions.

The turbulent environment has encouraged companies to assess and understand the effects caused in order to remain and sustain its competitive position. To make effective decisions, managers must understand the environment in which their companies operate on. Ginter and Duncan (1990) stated that environmental analysis involves four interrelated activities:

I. Scanning the environment for warning signs and possible environmental changes that will affect the business;
II. Monitoring environments for specific trends and patterns;
III. Forecasting future directions of environmental changes and;
IV. Assessing current and future trends in terms of the effects such changes would have on the company.

However, Pettigrew and Whipp (1991) provided a more comprehensive model for assessing and understanding the turbulent business environment. They argued that assessing the organisation's external environment should be conducted through recognising and building the organisation as an open learning system. In other words, acquiring, creating, and processing information and knowledge from the organisation's environment has to be done at various organisation levels. Pettigrew and Whipp's model for assessing the environment built on four main factors. These help to explain the degree of openness and receptiveness of the organisation to the changes of its environment, as well as secondary actions in order to stabilize and impel the assessment capacity forward. The four main factors are (p.136):

I. The extent to which there are key actors within the firm who are prepared to champion assessment techniques increases the receptiveness of the organisation to its environment,
II. The structural and cultural characteristics of the company
III. The extent to which environmental pressures are recognised and their associated dramas develop,
IV. The degree to which assessment occurs as multi-function activity which is not pursued as an end in itself but which is then linked to the central operation of the business.

In addition to these main conditions, Pettigrew and Whipp identified other secondary conditions that complement these conditions in order to endure the environmental assessment capacity. These secondary conditions are: (1) Purposive networks should be built for linking the company with its key stakeholders. (2) Specialist task forces or teams should be used, which can often reinforce the importance attributed to assessment process. (3) The members of the task forces should be selected from across the organisation's functions.

In order to apply Pettigrew and Whipp environment assessment model, it is imperative to "Operationalise" the company's external environment to its components. The following section will be devoted to assessing and understanding the external environment.

4.4 THE COMPONENTS OF EXTERNAL ENVIRONMENT

Strategic environmental analysis (internal and external) is the foundation for strategic management decisions. However, companies often face difficulties in trying to analyse and understand their environments (Johnson and Scholes, 1999). The first difficulty is that the environment encapsulates many different influences, which can contribute to the strategic decision-making. The second difficulty is that of uncertainty surrounding the external environment. Managers claim that the pace of technological change and the speed of global communications implieds more and faster change now than ever before.

In fact, all organisations import from the external environment their inputs including raw materials, knowledge, people and finance and export their outputs such as products and services to the environment (Terryberry, 1968). Therefore, the external environment is prime determinant of the form and behaviour of an organisation. In order to examine the company's external environment we need a framework to classify the constituents of the environment. For the purpose of circumventing the complexity and uncertainty surrounding the environment, a framework for analysing and recognising external environment, which provides the main components and elements of the environment, will be used. The organisation environmental framework can be viewed as a bit like "an onion" (Campbell et al., 1999). In other words, "organisation environment" can be divided into three strata. The inner stratum of the framework represents the internal environment of organisation. This stratum has been discussed within previous chapters. The second stratum shows the (direct) microenvironment (competitive environment). This environment is the sphere in which the organisation interacts often with any change and such an environment can affect an organisation very quickly and sometimes very dramatically. Such environment comprises of the influences from the competitive environment (customers, competitors, suppliers). To make sense of the importance of this stratum, Porter's five forces model will be discussed shortly. The upper stratum represents the macro environment (general environment). This environment contains a number of influences that affect not only an organisation itself, but also the rest of players in the market, and they are beyond an organisation's ability to influence. To analyse and recognise this stratum, the "STEP" model will be utilised (socio-demographic, technological, economic, and political influences).

4.4.1 MACRO EXTERNAL ENVIRONMENT

A discussion of this stratum will occur in this section only briefly, as it has been discussed in detail in chapter 2 (Saudi Arabia context).

The macro environment consists of those issues that lie outside of the company, yet which are still they of concern to the company. The complexity of the macro environment makes it imperative to divide the forces at work into the four broad categories we have mentioned (STEP model). It is important to recognise that the four categories are interrelated and constantly interact with each other. These categories are (Campbell et al., 1999; Johnson and Scholes, 1999):

4.4.1.1 SOCIO-DEMOGRAPHIC FORCES.

This environmental category is concerned with understanding the potential influences of society and the social changes affecting a business, its industry and its market. This category involves the following influences: population demographic, income distribution, lifestyle changes, level of education, attitude to work and leisure, culture and religion.

4.4.1.2 TECHNOLOGICAL FORCES.

This environmental category involves the development of an understanding of the influences technological advancement in all areas of a business and its activities, including products and services, production process, information and communication. These technological influences can involve: Government spending on research and development, industry focus on technological effort, speed of technological transfer and the rate of obsolescence.

4.4.1.3 ECONOMIC FORCES.

This category centres on changes in the macro-economy and their effects on business and consumers. Since governments intervene (to a varying extent) in the operation of all countries' economies, thus many political forces will have important economic implications. Economic influences can include: business cycles, gross national product (GNP), interest rates, money supply, inflation and unemployment.

4.4.1.4 POLITICAL FORCES.

This category is defined as the part of the macro environment, which is either under the direct control or influence of the government. Examples of political influences that have impacts on an organisations' activities and strategies are: Monopoly legislation, environmental protection law, taxation policy, employment law and government stability.

It should be realised that these four forces are interlinked. In other words, any change in one of these factors often influences the other ones. Increasing concern about ecological issues provide a good example for such interrelatedness amongst macro environmental forces. For example, (Campbell et al., 1999: p.109) stated "the effects of ecological issues in business, social factors (increasing awareness) have impacted on political factors (legislation) and the two forces together produced technological change (products and processes that are less damaging to the environment)".

Analysing and recognising these four environmental forces is crucial for a company to survive and prosper (Dill, 1958). It could be said that trends within these four categories, such as the aging population, the shift from manufacturing to service industries, using the internet as a way of marketing, and the use of robotics will have profound effects on organisations regardless of the industry. Gineter and Duncan (1990) provide the example of the sportswear manufacturers Adidas and Converse, whose failure to adequately analyse and recognise their macro environment caused them to miss the opportunity of catering for the premium (upper priced) segment of the running shoe market. Nike, on the other hand, more accurately predicted the strength of demand in the segment and exploited the market opportunities much more successfully.

Furthermore, the changes in the macro environmental factors could be the driving force for pursuing merger/acquisition strategies for the purpose of reducing or avoiding environmental uncertainty caused by such changes. For example, Buono and Bowditch (1989), in their study of the Urban-Suburban merger, stated that uncertainty in the larger environment in the form of deregulation, (increased competition from a growing array of financial institutions), the expanding use of electronic funds transfer and automatic teller network, and a growing sophistication of customers created a number of uncertainties for the CEOs, which ultimately led to the merger decision.

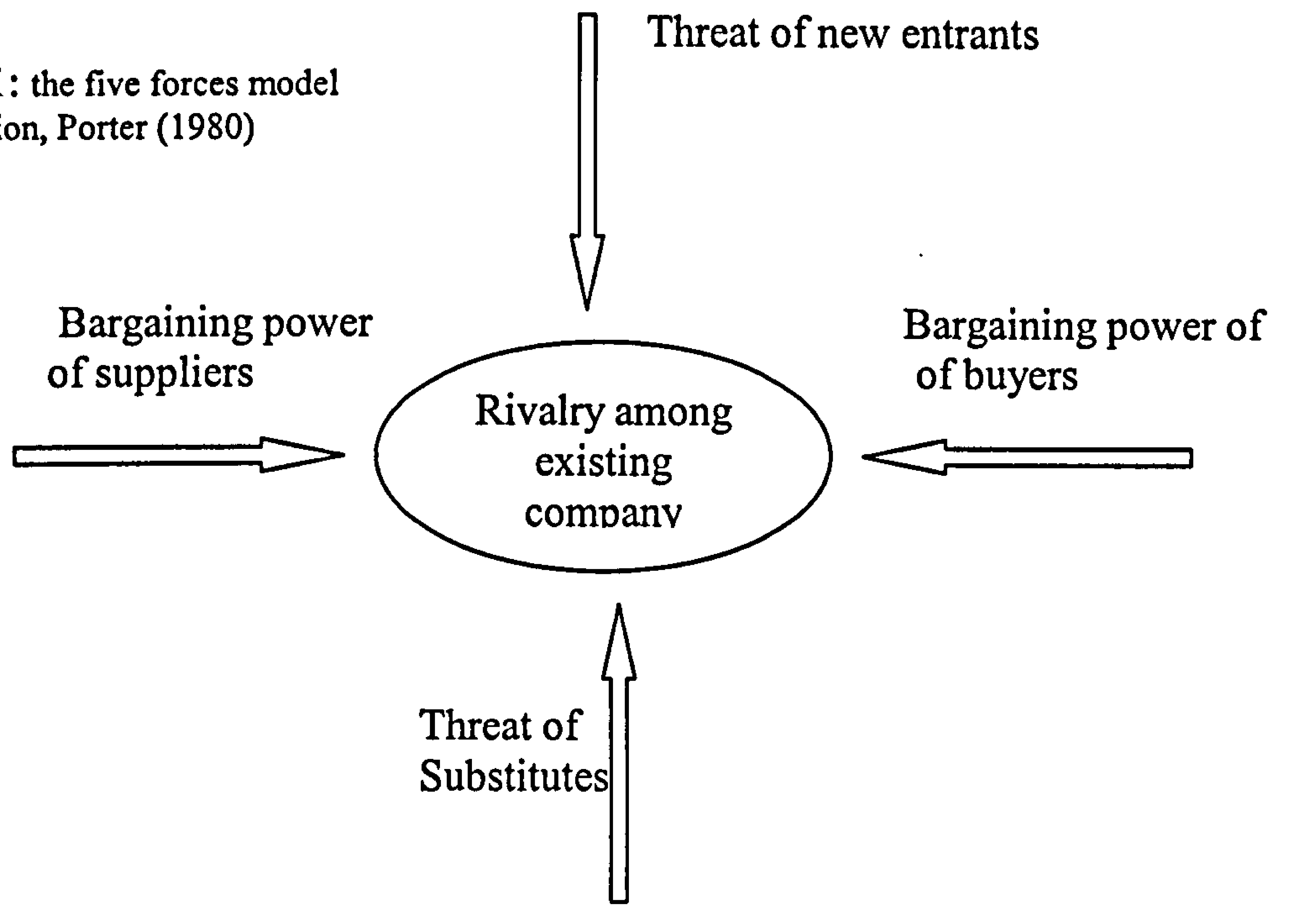
In short, the analysis of the macro environment is primarily concerned with providing an insight into the future prospects of a company. The complexity and turbulence of the environment makes for a problematic prediction of the future. Undertaking analysis, however, will inform managers in their decision-making process. The process of macro environment analysis should be conducted on a continuous basis to cope with the turbulent environment. The analysis should be done to identify the potential impacts on a business's organisation as well as its competitive environment.

4.4.2 COMPETITIVE ENVIRONMENT (MICROENVIRONMENT)

The essence of formulating a strategy ultimately relates a company to its environment. The environment involves both macro-political, economic and the micro-environment, and the key aspects of the firm's environment radiates from the industry or industries in which that the company operates (Porter, 1980). The profitability of a company and the nature of competition in the industry are more directly influenced by developments in the competitive environment. In other words, analysing the competitive environment continuously and considering the opportunities and threats could put the company in an advantageous position in order to realise a competitive advantage over its competitors through formulating appropriate strategy to seize the opportunities and deal with threads more quickly and effectively.

Porter (1980) developed a framework for analysing the nature and the extent of the organisation's competitive environment. He argued that there are five competitive forces that determine the nature and extent of rivalry, as well as, the profit potential of an industry in which the company operates. Analysing and understanding the nature and strength of each of these forces on the competitive environment is crucial for managers to determine the most appropriate and defensible strategic position within the industry. Furthermore, It should be recognised that the dynamic nature of the competitive environment (constantly changing) means that the relative strength of these forces in particular industry will change over time. Therefore, it is important to note that the five forces analysis is repeated on regular basis in order to explore such changes before competitors, and to allow an early adjustment of the business' strategy. Porter's five forces framework presents a powerful analytical tool for analysing the competitive environment. Thus, each of the five forces will be detailed in turn. Figure 4.1 represents the Porter's five forces.

Figure 4.1: the five forces model Of competition, Porter (1980)



4.4.2.1 THE THREAT OF ENTRY

New entrants into an industry represents competitive threats to existing companies. It adds new capacity and the potential to erode the market share of the existing companies. The new entrants may also bring substantial resources (such as a large advertising or R&D budget), which were not previously required for success in the industry. The threat of entry will depend on the extent to which it can erect substantial barriers to entry or signal the intention to retaliate aggressively. Barriers to entry can take a number of forms.

i. **Economies of scale**

Can be achieved through reducing costs due to the production of large volume. This provides incumbent cost advantages, which deters the prospective entrants from entering the market as they are forced to spend heavily on facilities, advertising, sales force coverage, distribution and so forth. They would have to do this in order to achieve cost advantage that incumbents make, otherwise, they come in at a small scale and face a cost disadvantage. Furthermore, economies of scale entry barrier also occurs when there are economies to vertical integration through merger/acquisition strategies. Here, the entrants must enter after integration or face a cost disadvantage, as well as possible foreclosure of inputs or markets for its products if most established competitors are integrated.

ii. Product differentiation.

This implies that incumbents have brand identification and customer loyalties, which stem from the heavy advertising and promotion, customer service, and product differences. These differences in physical and perceptual characteristics make a product unique in the eye of the customer. Thus new entrants will encounter resistance in trying to enter such industries since they have to spend more to overcome existing customer loyalties.

iii. Capital requirement.

The size of the investment required to enter an industry will be an important determinant of the extent of the threat of new entrants. The higher the investment required, the less the threat from new entrants and vice versa. For example, the investment required to establish a retail clothing business with leased premises is minimal when compared with the investment required to enter capita-intensive industries such as chemical, automobile and mining. Therefore, the threat from new entrants to retail clothing industries is high whilst capital-intensive industries are not.

iv. Access to distribution channels.

New entrants may find it difficult to gain access to channels of distribution, which will make it difficult to provide products to their customers. The more limited the wholesale or retail channels for a product are and the more incumbents have these tied up, the tougher entry into the industry will be. Sometimes the incumbents have pre-empted the existing channels through long-run relationships or exclusive arrangements, which leaves the prospective entrants with the cost of establishing a completely new channel.

v. Expected retaliation.

If new entrants believe that the retaliation form the incumbents will be so great as to prevent entry, or that entry too costly, these will represent barriers to entry. For example, entering into breakfast cereal market to compete with Kellogg's would be unwise unless very careful attention to a strategy was used to avoid retaliation.

vi. Legislation and government action.

Government can limit or even foreclose entry into industries with such control mechanisms as patent protection and licensing requirements and place limits of access to raw materials. Government restrictions on entry can stem from controls such as air and water pollution standards and product safety and efficacy regulations.

Incumbents in the industry will attempt to strengthen the barriers to entry to their industry by, for example, cultivating brand loyalty, increasing the cost of entry and tying up input and distribution channels as far as possible. Merger/acquisition strategies could provide a mechanism in order to achieve such possibilities.

4.4.2.2 THE THREAT OF SUBSTITUTES

When the prices of existing products rise above that of the substitutes, customers tend to switch to the substitute. Therefore, the availability of an acceptable and available substitute that performs the same function or offers the same benefits puts a ceiling on the average prices that can be charged, and thus limits the amount of value that can be created. This criterion (that of receiving equivalent benefits) can be met in two ways: directly and indirectly.

i. **Direct substitutes**

They are those that are of the same in substance or that serve the same function. For example, Nescafe and Maxwell House are direct competitors in the instant coffee market.

ii. **Indirect substitutes**

They are those that are different in substance, but can, in certain circumstances, provide the same benefit. For example, in bridge construction, steel, wood, and concrete companies can provide the same structural benefit. Therefore, in the construction market, these three companies are indirect substitutes. But in the automotive industry, concrete is not an indirect substitute for steel.

The Two factors that could determine the threat of substitutes are:

I. The extent to which the price and performance of the substitute can match the industry' product. Close substitutes, whose performance is comparable to the industry's product and whose price is similar will be a serious threat to an industry. The more indirect the substitute, the less likely the price and performance will be comparable.

II. The willingness of buyers to switch to the substitute. Buyers will be more willing to change suppliers if switching costs low or if the competitor's products offer lower prices or improve performance. This is closely related to the extent to which customers are brand loyal. In other words, the more loyal customers are to one supplier's product, the less the threat from the substitutes.

The introduction of a substitute product can adversely affect an industry's growth and profit potential, for example, Federal Express, (which is the national's largest overnight letter cattier), has seen its annual growth rate in domestic shipment volume decline. This is attributed to the increasing usage of office fax machines. Recently, office fax machine has been substituted by e-mail.

Incumbents in an industry block the route to their industry against substitutes by improving the performance of their products, reducing costs and prices and by differentiation strategies. Mergers/acquisitions can be used to manage the threat of substitutes as it is possible to buy a company that can offer close substitution to its products, also incumbents can merge or cooperate together against new entrants or close substitutes.

4.4.2.3 THE BARGAINING POWER OF SUPPLIERS

All organisations have to obtain resources that they need to carry out their activities from resource suppliers (human, physical, financial, and intellectual resources). Moreover, there are many ways in which suppliers can affect an industry's profit potential; they may either increase their prices or reduce the quality of goods and services they provide to the industry. It is important to note that many resources are used by more than one industry. As a consequence, the bargaining power of suppliers will not be determined only by their relationship with one industry but by their relationships with all of the industries that the serve. Conditions under which a supplier group can exert bargaining power against its customers include:

I. The uniqueness and scarcity of the resource that the suppliers provide. If the resources provided to the industry are essential to it and have no close substitutes then suppliers are more likely to exert significant power over the industry and vice versa. For example, people with exceptional skills can demand higher salaries and various benefits than less-skilled people.

II. The degree of concentration of the suppliers. If the suppliers are a few in number and sell to fragmented customers, they will usually be able to exert a considerable amount of influence on prices, quality, and terms. Therefore, when the suppliers are concentrated and their customers are large in number (and fragmented), they will be in powerful position and vice versa.

III. The cost of switching to another supplier. If suppliers provide a specialist or differentiated products, such as the aerospace industry, the switching of costs to another supplier will be high, which will enhance the bargaining power of the suppliers. Switching costs may be the actual cost of changing suppliers, for example, machines or systems would have to be changed, or an unacceptably high risk of change, for example if a low-cost item is nonetheless of critical importance to the buyer.

IV. The relative importance of the supplier' products to industries buy them. If the supplier's products represent an important input to the success of buyer manufacturing process or product quality, the supplier group will probably exert more influence on the price and terms of a transaction and vice versa.

V. The degree that the supplier group represents a credible threat to its buyer's industry through forward integration.

The conditions determining a supplier's power are not only subject to change but are sometimes also outside of their control. However, Company can mitigate or avoid the influence of powerful supplier group through strategies of mergers/acquisitions in the form of backward vertical integration.

4.4.2.4 BARGAINING POWER OF BUYER

All companies have to sell their products/services to customers (industrial, retail or end customers) to reause an appropriate profit in order to pursue their development and prosperity. Buyers, therefore, compete within the industry by forcing down prices, bargaining for higher quality and more services, and playing competitors against each other-all at the expense of the industry's profits. The extent to which the buyers of a product exert power over a supplier organisation depends upon a number of conditions. In general, the more power the buyer has, the lower the transaction price, which has obvious implications on suppliers' profits. The conditions that determine the bargaining power of buyers are:

I. The degree of concentration of buyers. The fewer the buyers and the greater the volume of their purchases, the greater their concentration and the more power their position creates (and vice versa).

II. Switching costs and the availability of substitutes. If the costs of switching to substitute products are low (because the substitutes are close in terms of functionality and price), the buyer will be more powerful. In other words, when the supplier's products are undifferentiated and standardised, the switching cost to alternative products will be low, which then enhances the buyer's bargaining power. It should be noted that buyers are not necessarily those at the end of the supply chain. At each stage of a supply chain, the bargaining power of buyers will have a strong influence upon the prices charged and the industry's structure.

III. The amount of information that a buyer has. When the buyer has full information about demand, actual market prices, and even supplier's structure costs, this will enhance the bargaining power leverage of the buyer. With full information, the buyer is in a greater position to ensure that it receives the most favourable prices offered and can counter suppliers' claim that their viability is threatened.

IV. The degree that buyer group represents a credible threat to its supplier's industry through backward integration. If buyers posed a credible threat of backward integration, they are in a position to exert more influence on the prices and terms of the transaction.

V. The degree of buyer sensitivity to the price changes. The greater the buyers' sensitivity to the price change, the greater the effort that they want to exert to influence the price, which will enhance their bargaining power. Buyer sensitivity will be heightened when:

   a) The product or service has little influence on the performance or quality of the buyer' product.
   b) The products represent a significant fraction of the buyer' total cost.
   c) The supply's product may lead to only marginal savings for the buyer.
   d) The buyer is suffering poor profitability and looks to the supplier for help.

Powerful buyers can extract significant price concessions from their suppliers because of high purchase volume, a credible threat of backward integration, and higher concentration. This situation has been found in the three big US automobile companies (Ford, General Motor, and Chryselar). A company can neutralise the power of buyers by merging/acquiring other companies in the same industry or by forward integration with a buyer as a means of to controlling marketing process.

4.4.2.5 THE INTENSITY OF RIVALRY AMONG INCUMBENTS

Competition can range from direct rivals that comfortably co-exist, as each appears to be content with its respective market share, to arenas that are constantly under severe competition. Competition can take place on either a price or a non-price basis. Price competition involves businesses trying to under-cut each other's prices, which will rely on their abilities to reduce the cost of production. Non-price competition will take the form of branding, advertising, promotion, additional services to customers, and product innovation. It should be noted that this (Porter) force is placed in the centre and the arrows from other forces directed towards to indicate that the intense rivalry of this force is largely depend on the contributions of the other four forces that feed it (as illustrated in figure 4.1, p. 14). However, the severity of rivalry in an industry will also depend on the following factors:

I. The extent to which the competitors are in balance. Where competitors are of roughly equal size, there is the danger of intense competition as one competitor attempts to gain dominance over the other. Conversely, the less competitive markets tend to be those with dominant organisations within them.

II. The maturity of the industry. The idea of the life cycle suggests that conditions within markets, especially between growth and maturity stages, are important for predicting competitive behaviour. For example, in a situation of market growth, a company can ensure it growth just by sustaining its longevity within the industry; in this situation, competition will be low. In the mature stage, however, company's sales growth will be at the expense of other competitors within the industry; this, in turn, will intensify the competition.

III. High fixed and storage costs. When fixed costs are high in an industry competition within it will intensify, as the emphasis would be on full capacity utilisation. The severity of competition, in this situation, is likely to result in competitors reducing prices to obtain the turnover required to sell the excess capacity. This can lead to price wars and very low-margin operations.

IV. Lack of differentiation. An absence of perceived uniqueness among competing products will make the switching costs to alternatives low as purchasing choices are largely based on price and preferable terms and conditions; this, in turn, will intensify the competition. Product differentiation, on the other hand, would block competitive warfare because buyers have preferences and loyalty to particular sellers. In other words, switching costs to alternative products will be highly financial and emotional.

V. The diversity of competitors' objectives and strategies. When all competitors within an industry pursue similar strategies, have similar cost structures, place equal emphasis on long-run profitability, and are managed by people from the same backgrounds, they naturally understand one another's intentions and can accurately anticipate their reactions to strategic moves. In this situation, competition within the industry will be low. In contrast, when competitors differ in their strategies, come from different backgrounds (where some are foreign-based, some closely held, and others are state-owned), have different objectives. Thus, they have different ideas about acceptable profits and will ultimately pursue conflicting strategies that eventually intensify the rivalry and depress the average profit in the industry.

VI. Exit barriers. These hurdles prevent companies from competing as participants in a market even if their profitability is miserable. The main exit barriers are:

a) Specialised assets: these types of assets often have low liquidation values or high costs of transfer or conversion.

b) Fixed costs of exit: these include labour agreements, resettlement costs, maintaining capabilities for spare parts, and so on.

c) Strategic interrelations: the business may be part of a total strategy involving a group of businesses, and leaving it would diminish the importance of the interrelationships. A business may also be central to the corporation's identity, and exit may damage the company image. Exit might idle shared facilities or other assets. Finally, leaves of the market may reduce both the confidence of the capital markets in the firm and the financial credibility of the firm.

d) Emotional barriers; management's unwillingness to make economically justified exit decisions can be due to their identification with a particular business, such as loyalty to employees, fear for one's career, pride, and other reasons.

Porter's five forces model is a robust tool and can be applied in diverse contexts. Analysing and understanding the implications of the five forces would help a company to realise the threats and opportunities within the competitive environment, which, in turn, will enable it to choose the appropriate strategies to exploit the opportunities and to neutralise threats. In other words, assessing and considering Porter's model provides strategic insights about the future of the competitive arena in terms of shifts, disruptions and trends in the underlying forces. As a consequence, this could explain why some arenas enjoy higher profits than others. However, Porter's five forces model is subject to several limitations as competitive arenas have become more complex and dynamic, in turn, making industry boundaries less clear or easy to predict (as discussed previously in this chapter). The dynamism and complexity primarily attributed to three super forces: First, globalisation removes national entry barriers, which sees the whole world as one market. This will allow foreign companies to operate equally with domestic companies in all countries that are involved in the World trade Organisation. Consequently, competition will be intensified in domestic as well as foreign industries. This would blur the boundaries of competitive arenas that are defined by Porter's five forces.

Secondly, technological advancements prove that no competitive forces are immune from the restless effort of such developments. Technology-driven environmental shifts are one of the most powerful forces changing the nature of competitive advantage. These shifts undermine the whole basis for thinking about strategy and regulation within an industry. This in turn would limit the utility of the traditional industry distinctions as technological advances often extend the functionality of some technologies such as satellite communication systems, to enable them to compete with other technologies such as cable television systems. Therefore, in this sense, industry boundaries would blur so that organisations need to consider competitors and customers from both within and outside traditionally defined industries (D'Aveni, 1995; Zohar and Morgan, 1996). Furthermore, technological developments enable organisations to redeploy assets from one industry to another, which making entry and mobility barriers more permeable than before (D'Aveni, 1994; Thomas, 1996).

Thirdly, The impact of government regulations on the nature of competition has not been given the importance it deserves within the porter's five model. It is especially strong when the intervention decides who competes. Regulatory requirements often restrict entry, usually because there is a scarce resource such as oil. Also, performance or safety standards are more subtle barriers, especially when they favour the incumbents in the industry. Regulatory rulings have been especially powerful on industries such as telecommunication. For instance, AT&T was prevented by law from meeting MCI's prices on long-distance for seven years after deregulation to give the new entrant time to become established.

The limitation of Porter's model can be overcome by adding the three super competitive forces to Porter's model: globalisation, technology advancement, and government interventions. These three super forces are not imposed on the Porter's model as equal to the five forces, but are placed at an upper level to indicate that these three forces influence not only govern companies that operate in an industry, but they influence the landscape of the entire industry itself and other related industries.

4.5 ORGANISATION COHERENCE

Pettigrew and Whipp (1991) stated that the issue of coherence in managing change and competition is the most abstract and wide-ranging concept over the remaining four central factors (assessing environment, leading change, linking strategic and operational change, human resources as assets and liabilities). They argue that the requirements for coherence arise from the implications of the other four factors. According to them, the essence of the coherence is the ability of management to hold the organisation together whilst simultaneously reshaping and adjusting as the new or emergent strategies demand.

In the context of mergers/acquisitions, top management are often forced to turn their attention away from the daily duties of conducting business to focussing on the biggest challenge that their organisation has faced (Pritchett, 1997). In other words, companies that are involved in mergers/acquisitions are often at their most exposed, as the uncertainty surrounding such strategies if not addressed promptly and adequately can provide the competition with an advantage. Thus, coherence is very important for merging/acquiring companies to achieve their common goal. The concept of coherence in the context of merger/acquisition can be defined as the ability of top management to sustain daily duties of the business whilst managing the merger/acquisition integration process at the same time. This definition involves internal and external factors that merging/acquiring companies have to achieve to meet the coherence objective.

It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. Merger and acquisition strategies are not an exception. Pettegrew and Whipp (1991) applied four criteria for organisational

coherence in the process of strategic change: consistency, consonance, feasibility, and advantage. These four factors seem to be simple yet their joint effects are very potent.
The first criterion concerns consistency. The basic assumption of this criterion is that a given strategy does not contradict itself. Clearly, the chosen strategy (or domain of activity) should be harmonious with management goals, policies and culture. The second one is related to consonance. This means that the strategy pursued should represent an adaptive response to the external environment through seizing the opportunities and neutralising threats. The third factor is feasibility, which indicates that the strategy should not be so demanding to implement that it absorbs all of the resources in the organisation. In other words, organisation should be equipped and prepared professionally, financially, and physically to implement such a strategy. Finally, the chosen strategy should aim to obtain and sustain competitive advantage in the selected arena. In the context of mergers/acquisitions, coherence can be clarified by the following: merger/acquisition decisions should be made based on a continuous and comprehensive assessment of a companies' external environment for identifying opportunities and threats and full knowledge of the companies internal environment for assessing their strengths and weaknesses. Merger/acquisition decisions should then be made according to the availability of sufficient resources to effectively manage the integration of the two companies' resources for the purpose of sustaining best practices. Together, the power created through joint capabilities would enable combining two companies together to exploit the opportunities and neutralise the threats to achieve competitive position that one company alone cannot achieve. According to the scenario above, we can note that achieving coherence in the merger context is based on the four pillars: consistence, consonance, feasibility and advantage. Any loss of one or more of these pillars will deem the merger strategies unviable. For example, if merging companies did not have the required resources to implement and manage the merger process, such as not recognising opportunities and threats in their external environment or in complete knowledge about their capabilities; or if the competitive advantage that has been achieved can be obtained by any one company alone. Then the merger/acquisition decision is unviable as one or more of the coherence pillars are lost.

Rumelt (1980) stated that any strategy is unsuccessful to meet one or more of these criteria are greatly in doubt of pursuing the strategy successfully. Pettigrew and

Whipp (1991) points out that these criteria would form the strategic position of a company that is directed to (1) creating identifiable competitive base, and (2) this position does not impair its likelihood for being implemented as a whole. In other words, coherence integrity is based on the interplay of these four criteria, so these four criteria have to be attended. These criteria will be discussed briefly within the following section.

4.5.1 CONSONANCE

The way in which a business related to its environment is two folds (Rumelt, 1980): the business must match and be adapted to its environment whilst competing with other firms that are also trying to adapt. Responding to the change in the external environment successfully depends heavily on the ability of a company to identify the opportunities and threats in the changing environment. This relies on the capability of a company to assess and understand its external environment on a continuous basis. This, in turn, hinges on the ability of the company to structure itself in way to be an open learning systems: organisation's is sensitive to the changing environment. In other words, to be effectively responsive to the environment, external orientation should be part of the culture of the company (Pettigrew and Whipp, 1991). Therefore, consonance criterion can be achieved as a company assesses and considers the opportunities and threats effectively that exist within the external environment where the company operates. Opportunities are chances that a firm can anticipate, or they may emerge in unexpected way, which can be exploited for improving its competitive position and performance. Threats, in other words, are any individual, group, or organisation outside a firm that seeks to reduce the level of that firm's performance or undermine the company's competitive position (Barney, 2002). Understanding the external environment (opportunities and threats) would put the company in an appropriate position to choose the strategy that can exploit these opportunities in order to avoid or reduce threats, yet the exploitation of such opportunities cannot be completed without full knowledge of the company's capabilities and competences that will be used to fulfil chosen strategy. This demonstrates the importance of the second criteria of coherence, which is feasibility.

4.5.2 FEASIBILITY

Can the chosen strategy to seize the opportunities and neutralise threats be attempted within the physical, human, financial, and organisational resources available to the company? Answering the question depends on the effectiveness of the company's resource (capability) analysis. However, a company's resources analysis differs according to the type of resources used. Financial resources are the easiest to quantify and are normally the first limitations against which a strategy is tested. Human and organisational resources are less quantifiable and more rigid limitation on strategic choice (Rumelt, 1980). This could partly, explain neglecting human resource and culture issues whilst emphasis is often given to the financial issues during the evaluation process. Comprehensive analysis of the company capabilities will help to identify the company's strengths and weaknesses. Company's strengths are the resources and capabilities that it possesses that enable it to engage in activities that generate economic value and, some times, competitive advantage. While company's weaknesses represent a firm's resources and capabilities that either make it difficult to realise the economic value of a company 's strengths or actually reduce a company economic value if they are used by a company to implement strategies (Barney, 2002).

Company's can capitalise their strength to seize the opportunities in the competitive environment if full information is available about its capabilities and the threat and opportunities in the environment. In other words, successful strategic choice depends on matching internal strengths and weaknesses to external opportunities and threats (Andrews, 1987; Ansoff, 1965; Hofer and Schendel, 1978). Together, these aspects comprise the SWOT (strengths, weaknesses, opportunities, and threats) analysis. The Timex Watch Company provides an example regarding the importance of interaction amongst internal strengths and weaknesses, and external opportunities and threats (Dess and Miller, 1993).

"After World War II, during which Timex produced timing devices for explosives. Timex began to search for new opportunities to employ its strength in designing and producing simple, cheap, and rugged mechanical timers. Wristwatches by leading designers are expensive, delicate objects sold through jewellery stores. Timex saw an opportunity to change this and established the goal of becoming a dominant competitor in the low end of the watch market. Timex successfully employed its strengths to exploit the opportunity in external environment, and soon in the watch market one of every three watches sold in the world was a Timex.

However, the advent of digital electronic watches presented a threat. Initially, Timex ignored this threat, believing that digital technology would never be competitive with mechanical watches. Because of this, Timex failed to address its weakness in digital and electronics design and production. When the cost of digital technology fell to the point that highly reliable electronic watches were less expensive than an old-fashioned looking Timex, the company's position in the wristwatch market was *weakened. Electronic companies stormed the market, and Timex spend years struggling to build comparable strengths in digital technology just to survive"* (p. 11).

It is clear from the Timex case that continuous appraisal and understanding of a company's external and internal environment is crucial to formulate sound strategies that can employ the company's strengths to seize the opportunities and neutralise threats in the external environment. This would enable such company's to gain and sustain a good competitive position within the market. However, such sound strategy cannot be implemented effectively if there is inconsistency between the chosen strategy and the company's objective, values and culture. This leads us to the third criteria of coherence, which is consistency.

4.4.3 CONSISTENCY

According to this criterion, harmony between chosen strategies, the strategic objectives, and believes and values of executives is essential to reinforce the implementation of the strategy (Johnson and Scholes, 1999). A key function of strategy is to provide coherence to organisational actions. A clear and explicit concept of strategy and objective can foster a climate of tacit coordination. For example, many companies face strategic choices on a corporate level for the company's development and growth: mergers/acquisitions, internal developments, strategic alliances and joint ventures. If executives do not hold a clear position with regard to those strategies, conflict among executives or between different departments or divisions can occur. This may abort or reduce the viability of a chosen strategy to achieve a company's objective (Rumelt, 1996). Moreover, consistency entails that a company's strategy is consistent with organisational objectives and management's values and beliefs. Inconsistency in such areas will retard the process of implementing such a strategy. For instance, if a company pursues merger strategies for its development and growth, many executives may experience a sense of loss, as such strategies may involve great change. These executives, therefore, will resist such changes that threaten their positions and career. This, in turn, might abort or reduce the viability of such strategies (such conflicts and the way that these conflicts can be managed in the context of mergers/acquisitions is discussed fully in chapters 3 and 4).

Consistency between chosen strategy and the organisational objectives and culture is critical criterion to implementing such a strategy effectively. Here, we can say that consonance and feasibility provide criteria that help to choose the strategy that enable a company to seize opportunities and neutralise threats in the external environment within the resources and capabilities available to the company. Consistency provides the criterion that enhances the possibility of implementation of such a strategy effectively and successfully. This guides us to raise the question: what is the criterion to judge the success and effectiveness of implementing such a strategy? This leads us to the final criterion of coherence, which is achieving competitive advantage.

4.5.4 ADVANTAGE

According to Johnson and Scholes (1999) acceptability of strategies can be assessed in three broad ways: return, risk, and stakeholder reactions. Strategy is about seeking a competitive advantage over rivals whilst slowing the erosion of present advantage (Day and Reibstein, 1997). Competitive advantages can be traced to one of three roots (Rumelt, 1984): superior skills, superior resources, and superior position. Within a dynamic competitive environment, such advantages may be eroded as competitors replicate or imitate resources and skills, which eventually render them obsolete. Therefore, creating and sustaining a competitive advantage over rivals becomes more crucial than ever before in formulating strategies. (More detail about gaining and sustaining competitive advantage in the context of mergers/acquisitions will be discussed fully in the next section).

In short, coherence is an important factor for the success of strategic change. In the context of mergers/acquisitions, coherence is crucial for the success of such strategies, as these strategies involve huge investment in terms of financial, physical, and human resources. Different cultures and systems also may create a conflict between merging partners. Therefore, merger decisions should be made in the light of full analysis of the external environment (opportunities and threats) and internal analysis (partners' capabilities and weaknesses) in the purpose of selecting the appropriate strategy that would capitalise the strengths of the merger partners to seize the opportunities and neutralise threats. Moreover, executives' values and beliefs of merger partners (or acquiring and acquired) should be in consistent with such strategies to gain their support and encouragement. In addition to this, the cultural differences between merger partners has to be managed well in order to facilitate the implementation process. Finally, the success of merger/acquisition strategies is measured by the ability of the merging/acquiring company to achieve competitive advantage as a result of the merger/acquisition bond

We can conclude that organisational coherence is an important factor for the success of merges/acquisitions. In other words, a strong relationship is required between organisational coherence and the merging/acquiring company's performance. We can see also that coherence strongly relates to understanding the environment and the mechanism by which the merger/acquisition process is handled.

4.6 COMPETITIVE ADVANTAGE

There is substantial agreement within the strategic management literature that price, cost and differentiation reflects the definition of competitive advantage (Reed and DeFillippi, 1990). The basic concept of competitive advantage can be traced back to Chamberlin (1939), yet Selznick (1957) is the one who contributed to the linkage of advantage to competency. Hofer and Schendel (1978, p.25) offered another idea, which described competitive advantage as "the unique position an organisation develops against its competitors through its pattern of resource deployments." According to the definition, we can see that competitive advantage can be achieved through organisational competencies. They also viewed competitive advantage as embedded within a company's strategy. In other words, competencies and competitive advantage are independent variables whilst performance is the dependent variable.

Porter (1980, 1985) and Day (1984) provided the next generation of the concept of competitive advantage, who described it as the position that a company occupies in the competitive environment to allow it to gain a distinct advantage over other competitors in the same market. They viewed competitive advantage as the objective of strategy, namely they saw competitive advantage as a dependent variable. According to Porter (1980, 1985), three generic strategies can be pursued to gain a distinguish position in an industry: cost leadership, differentiation, and focus.

Therefore, obtaining competitive advantage can be seen from different angles. Two approaches to achieving competitive advantage are dominant in the competitive strategies literature. The first approach viewed a company's position in a market as competitive advantage (Porter, 1985). The second approach is a company's resource-based as competitive advantage (Barney, 1991, 2001, Amit and Schoemaker, 1993, Prahalad and Hamel, 1990; Kay, 1993; Reed and DeFillippi, 1990). It should be noted that the two approaches are complementary, with one explaining the value of competitive outcomes in an industry, the other explaining the dynamic aspects of the firm's behaviour with regard to the accumulation and the disposition of the firm's resource (Collis, 1991).a Brief discussion of each of the approaches mentioned above will follow.

4.6.1 MARKET POSITIONING APPROACH

From the point of view of customers or competitors in a market, positional superiority defines an advantage (Day and Reibstein, 1997). According to this approach, the source of competitive advantage is based on the characteristics of the industry as well as the firm's position within the industry through a choice of generic strategies. Porter (1985) argued that a firm must decide whether to try to differentiate its products and sell them at a premium price (differentiation strategy) or whether to try to gain competitive advantage by producing at a lower cost than its competitors (cost leadership strategy) or whether to serve only a particular segment of the market (focus strategy). Therefore, Porter (1985) used the term "stuck in the middle" to indicate the characteristics of a firm that engage in more than one generic strategy but fails to achieve any one of them. According to Porter, a firm in this position possesses no competitive advantage because of its unwillingness to make a choice about how to compete. We can see that the competitive advantage in this approach is more ascribe to external characteristics than to the firm's idiosyncratic competencies and resource-based deployments.

4.6.1.1 COST LEADERSHIP STRATEGIES

A company that chooses a cost-leadership strategy focuses on obtaining competitive advantage by exerting much of its effort in reducing its economic costs below those of its competitors (Porter, 1985; Barney, 2002). Numerous firms have pursued cost-leadership strategies. For example, Procter & Gamble established Ivory Soap as a cost leader in the home soap market. Ivory is packaged in pain paper wrappings and has avoided costly deodorants and fragrances. Ivory advertisement tends to emphasize Ivory's low price, high value and purity. Ivory continues to be a successful product by keeping production costs low and by providing value to its costumers (Lawrence and Sloan, 1992).

There are many reasons why an individual firm may have a cost advantage over its competitors. One of the most widely cited sources of cost advantages is a company's size (Barney, 2002). The logic of size as a competitive advantage can be described by the economies of scale that large company can achieve in manufacturing, marketing, distribution and service that render such a company to have a cost advantage over smaller firms. Steep economies of scale exist when there are high fixed vs. variable costs in the predominant business industry such as the automobile, aircraft, and oil industries. Large companies can amortize the fixed costs over greater volumes, leading small competitors to playing the game on an adversely sloped playing field (Christensen, 2001).

Moreover, technologies that firms employ to manage their businesses are another source of cost advantage in an industry. The concept of technology includes not only the physical (technological hardware) tools that firms use to manage their business (the machines and robots) but also the technological software (such as the quality of relations among labour and management), the organisation's culture and the quality of management control. All these characteristics of a firm can have a dramatic impact on a firm's economic costs (Barney, 2002; Schonfeld, 1998). CAD (computer-aided-design) systems, for example, reduced the fixed and upfront cost of designing a new model. For example, the Toyota Company has technological cost advantages that enables it to outperform high established and large western companies like GM and Ford, as Toyota has employed technological hardware (such as robotic and CAD systems) as well as technological software and quality circles/Just in time (JIT) (effective and efficiency gain).

In addition to this, access to production factors could be a main source of cost advantage strategies amongst firms producing similar products in an industry. Factors of production are any inputs utilised by a firm to conduct its business activities; they include labour, capital, land and raw materials. A firm that has differential low-cost access to one or more of these factors is more likely to have a cost advantage over rivals (Barney, 2002). For instance, an oil company with fields in Saudi Arabia has cost advantage over oil firm with fields in the North Sea. This is because the cost of obtaining crude oil for Saudi-based firm are considerably less than the cost of obtaining crude oil for North Sea-based company, since drilling in Saudi Arabia requires only the simplest drilling technologies, as the oil is found relatively close to the surface.

The value of cost leadership can be viewed from the Porter's model of environmental threats and opportunities presented in the previous sections. Cost leader can reduce the threats of new entrants, rivalry, substitutes, buyers and suppliers. For example, Caterpillar, in the construction equipment, obtained an important competitive advantage by gaining low-cost access to an important factor of production (a worldwide service and supply service), which Komatsu was unable to match. Thus, Komatsu entered the market with high quality machines on the basis of high reliability to avoid compete with Caterpillar (Barklett and Rangan, 1985).

4.6.1.2 DIFFERENTIATION STRATEGIES

Porter's (1985) second generic strategy is differentiation. The logic behind this strategy is to provide a unique product/service that is valued by customers. This uniqueness is more or less generally dependant on the degree of focus involved. Attempts to create product/service uniqueness can stem from many sources. The achievement of the uniqueness can be sought through product/service characteristics and/or the way the product is marketed, location characteristics (or the delivery system), and reputation; the choice among these alternatives depends on the nature of the market in which a company operates (Barney, 2002; Al-awadh, 1996).

Rolex attempts to differentiate its watches from Timex watches by manufacturing them with solid gold cases. Also, Mercedes attempts to differentiate its cars from Hyundai's cars through sophisticated engineering and performance. Disney differentiates itself by its location in Orlando, Florida, as families can travel to a single location and enjoy a full range of Disney adventures (Gunther, 1998). Reputations are often very difficult to develop, yet once developed, they tend to last a long time, even if the basis for a firm's reputation no longer exists (klein and Leffler, 1981). For example, Sony continues to have a reputation for excellence in stereo speakers even though most audiophiles argue that several U.S. firms make speakers that are better than any made by Japanese firms (Levine, 1995).

Although Porter's generic strategic model constitutes the basis of a useful framework for categorising and understanding sources of competitive advantages, in recent years Porter's generic work has undergone severe criticism (Johnson and Scholes, 1997, 1999; Cronshaw et al., 1994; Miller, 1992; Mentzberg, 1991; Dietrich and Al-awadh, 1993).

First criticism, a company can apparently use a successful hybrid strategy without being "stuck in the middle" (Campbell et al., 1999). Porter (1980, 1985) argued that a business must choose between a differentiation and a cost leadership; or as such the business will be stuck in the middle. To be "stuck in the middle" between the two generic strategies, Porter argued, that would result in sub-optimal performance.

However, there is plenty of evidence that some companies with lower than industry-average cost can nevertheless sell their products on the basis of differentiation (Campbell et al., 1999). For example, Nissan, (Japanese automobile company), considers itself amongst the lowest unit cost in the industry, yet its prices are comparable to or above the average in the industry, as customers perceive its products to be extremely reliable (Worthy, 1991). Nissan, therefore, can be considered to follow a hybrid strategy that combines elements of differentiation with price competitiveness (Campbell et al., 1999).

Mergers/acquisitions can be employed to pursue such a strategy (hybrid strategy) as differentiated companies (such as Mercedece and Chrysler) merge together to achieve a synergetic effect (eliminate redundancies and efficient utilise share resources) that would enable such companies to compete on reasonable price, providing that the process of integrating the two companies was conducted successfully.

Second criticism; the resource/competence–based strategy is neglected in generic strategy framework. The generic strategic model is not the only one that seeks to provide an explanation of the sources of competitive advantage. The resource-based model emphasize that competitive advantage emerges from attributes of an organisation known as competences or capabilities, which differentiate itself from its competitors (Prahalad and Hamel, 1990; Stalk et al., 1992; Kay, 1993). A discussion of resource-based approach as a source of competitive advantage will follow.

4.6.2 RESOURCE-BASED APPROACH

The previous chapter (3) in addition to the next two chapters (5 and 6) are devoted to discussing in detail, resource-based components including human resource, and cultural factors as well as the mechanisms by which such issues are managed in the context of mergers/acquisitions. This section presents the resource-based components as an approach to gaining and sustaining competitive advantage.

The resource-based view of the firm provides a useful complement to Porter's (1980) well-known structural perspective on strategy. This view shifts the emphasis from the competitive environment to the resource that firms have developed to competing in the environment (Miller and Shamsie, 1996). To gain competitive advantage a firm needs an appropriate competitive strategy, which should be supported by competencies that are unique and superior. In fact, a company in order to maintain its profitability and market position, deploys different competitive strategies call for different organisational resources, competencies as well as different environment (Porter, 1980, Snow and Hrebiniak, 1980, Miller, 1986; Williams, 1992). Collis (1991) argues that the firm's resources are essential to enhancing any generic strategy. Unfortunately, the concept of resources remains an unstructured one that is rarely operationally defined or tested for its performance implications in different competitive environments (Miller and Shamsie, 1996).

In general, resources can involve "anything that might be thought of as a strength or weakness of a given firm." In other words, resources can be defined as the inputs-either tangible or intangible, human or non-human-that owned and controlled by a company to carry out its activities (Coyne, 1986; Hall, 1992; Campbell et al., 1999). The competency of a firm can be defined as the accumulated differentiated skills and knowledge that are required to perform an action better than its competitors. Teese et al., (1990) defined competencies as "a set of differential skills, complementary assets and routines that provide the basis for a firm's competitive capacities and sustainable advantage". Dosi et al., (1990), defined core competence as " a set of differentiated technological skills, complementary assets, and organisational routines and capacities".

To be more clear, resource-based theory can distinguish among three components: resource, competences and core competence/distinctive capability. The most important aspect of the distinction among these components lies in the degree to which each is tangible and visible. Resources (stocks, materials, human resources and finance) are relatively visible assets, which are useful in responding to market opportunities or necessities. Competences (skills, knowledge, technology and relationships) are less tangible and visible process-oriented resources. Core competences are value-adding combinations of resources and competences (Hamel and Heene, 1994; Sanchez et al., 1996; Gorman and Thomas, 1997). In other words, core competence can be defined as "the collective learning in the organisation, especially when coordinating diverse production skills and integrated multiple streams of technologies" (Prahalad and Hamel, 1990, p.82).

According to these definitions a core competence is a more valuable source of competitive advantage than either a competence or a resource, because core competence is more difficult to be detected or copy by competitors. In other words the invisibility of a core competence is often portrayed as a competitive weapon.

Moreover, a distinctive competency is the competitively unique and superior strategy that provides the firm with an advantage compared to its competitors through investing in its strengths and improving or avoiding its weaknesses (Al-awadh, 1996). Barney (2002) also stated that in order for competencies to generate a competitive advantage, they must satisfy at least two conditions: (1) the competencies must be valuable, as they enabling the firm to seize opportunities and neutralise threats in the competitive environment, and (2) only a small number of companies in a particular competitive environment possesses these competencies.

Prahalad and Hamel (1990) argued that core competencies in a company should satisfy the following conditions:

I. Firstly, a core competence provides the potential access to a wide variety of market.
II. Secondly, a core competence should make a significant contribution to the perceived customer benefits of the end product.
III. Thirdly, a core competence should be difficult for the competitors to emulate.

In addition to this, the social complexity (Dierickx and cool, 1989), and the way company's manage (culture) (Barney, 1986b, Foil, 1991) can be a source of competitive advantage as well as affecting the company's strategic choice. Finally, it should be recognised that core competence does not fade out with use. Unlike physical resources, which do deteriorate over time as they utilised, acore competences are reinforced as they are applied and shared. Yet, competencies need continuous development and improvement, otherwise they become obsolete. Moreover, they should be the guiding force for the business' development and growth, patterns of diversification, and market entry (Prahalad and Hamel, 1990).

The above discussion illustrated that competitive advantage can be gained based on two schools of thought: market position and resource-based approaches. The former focused on the position that a company occupies in a particular market that distinguishes it from its competitors and is valued by the customers as a main source of competitive advantage (focus on external factors). This position can be achieved by two broad generic strategies: cost leadership and differentiation. The resource-based approach, by contrast, emphasizes on the organisation's resources as a competitive advantage (focus on internal factors). In other words, the company's collective capabilities and competencies that enable the company to carrying out its different activities to produce products/services are the main source of competitive advantage. It can be concluded that neither positioning nor resource-based strategies alone can be a source of sustainable competitive advantage. In other words, companies aiming to gain and sustain a competitive advantage should view the two approaches as interrelated and each one should complement the other.

Furthermore, as we discussed in the previous sections, the competitive environment is characterised by dynamism and complexity because of technology advancement, globalisation and government intervention. The nature of such competitive environments made the traditional sources of advantages no longer provide long-term security. Namely, the competitive advantage for a company in such an environment could appear today and become obsolete tomorrow. For instance, GM and IBM still have economies of scale, massive advertising budget, deep pockets, and many other features that provide them with power over buyers and suppliers which raise barriers to entry that seem unassailable, yet these barriers are not enough to protect companies, such as GM and IBM, from shaking to their cores (D'Aveni, 1995). Therefore, gaining competitive advantage in such a turbulent business environment could enable a company only to survive, yet achieve above-average performance calls for maintaining this advantage over time, or at least as long as possible. This leads us to what is called sustainability of competitive advantage. Thus, the following section will be devoted to discuss sustainability.

7 SUSTAINABILITY OF COMPETITIVE ADVANTAGE

Companies in a turbulent environment should not only develop the competence and capabilities to gain competitive advantage, but they need also to make continuous improvements and developments of their competences and capabilities to confront the challenges of the future and the erosion of their advantages. The greatest threats to the advantage of most companies are changes in the "rules of the game" to which managers have been accustomed, and the creation a new advantages by competitors (Rumelt, 1984). Advantage can also become eroded under external pressures or the arrival of outside competitors that transfer well-honed assets and capabilities from related markets. Accordingly, a company has to work hard to build a firm foundation for sustaining its competitive advantage through developing barriers to imitation for a long period of time.

Since successful competitive advantage might be quickly imitated by others firms, a firm should build and develop barriers to protect and sustain the skills and knowledge in which its advantage is based. Barney (2002) stated that for a company to gain and sustain competitive advantage in the market four conditions have to be met:

I. Firstly, the company's capabilities and competencies must be valuable, which enables the firm to pursue the environmental opportunities and to neutralise environmental threats.
II. Secondly, the company's competencies should be rare. In other words, few competitors should possess these resources and competencies.
III. Thirdly, company's resources and competencies must be imperfectly imitable.
IV. Fourth, the company's capabilities and resources must be organised in a way that can exploit the full competitive potential of the company's competencies and capabilities.

Grant (1991) identified three conditions that create the barriers to imitation, which permit competitive advantage to persist: (1) competencies and capabilities have to involve causal ambiguity; it is unclear to the competition how the source of advantage works. (2) These competencies must be difficult to duplicate, as competitors cannot amass the same capabilities or they cannot find different resources to serve the same purpose. (3) New entrants who might be able to overcome the barriers of duplicability could face a credible retaliation. Porter (1985, p.20) suggested that sustainability is achieved when competitive advantage "resists erosion by competitor behaviour" because of barriers that makes imitation difficult. Arguably, the most effective barriers to imitation are achieved when competitors do not comprehend the competencies on which the advantage is based. Lippman and Rumelt (1982, p.420) pointed out that ambiguity may not only block imitation by rivals, but might also block factor mobility. Lippman and Rumelt (1982) and Reed and DeFillippi (1990) argue that in order for resource-based companies to produce quasi-rent and be a source of sustainable competitive advantage, they must be ambiguous.

Reed and DeFillippi (1990) argued that resource-based approach as a strategy to achieving and sustaining a competitive advantage entails reinvestment in ambiguous organisational competencies that have three characteristics. These are:

4.7.1 TACITNESS

This characteristic (Polanyi, 1967), implied that skill-based competencies involve tacit knowledge. Such tacit knowledge is developed through learning by doing and experience and refined through practice. The word "Learning" is an important concept here as it is the way of generating and maintaining this tacitness. Wagner and Sternberg (1985' p. 439) stated that tacit knowledge is " probably disorganised, informal and relatively inaccessible, making it potentially ill-suited for direct instruction". Tacitness, therefore, may raise the barriers to imitation by making the firm's competency more difficult to be described or understood.

4.7.2 COMPLEXITY

Competencies that are complex will be more difficult to emulate. Prahalad and Hamel (1990: p.84) stated "core competence should be difficult for competitors to imitate, and it will be difficult if it is complex". This complexity can be defined as the result of the interaction of numerous skills and assets when performing an action. Complexity, thus, arises from the interaction amongst large numbers of technologies, organisation routines and individuals/team-base experience (Reed and DeFillippi, 1990). Barney (1985, p.12) stated that "in complex, high inter-dependent human or technological systems, the causes of success or failure are often difficult to assign... and... the establishment of cause-effect relationships can be very difficult, and the concomitant assessment of performance may be highly ambiguous". MacMillan et al., (1985, p. 77) similarly argued that the product complexity that arises from the necessary combination of skills from numerous departments makes imitation difficult. Therefore, it can be concluded that the greater the complexity entails to perform an action, the more difficult it will be for competitors to imitate the company's competitive advantage.

4.7.3 SPECIFICITY

The commitment of skills and resources to the requirements of individual customers, can be a source of competitive advantage. Symbiosis between a firm and customer, which generates mutually profitable and long-term relationships, is central to the specificity (Reed and DeFillippi. 1990). Specificity can be described as the extent that resources and skills are idiosyncratic to the company and not easily transferable to alternative use without substantial cost (Reed and DeFillippi, 1990; Williamson, 1985). An example of the specificity can be seen in the firm's reputation, image and relationships with suppliers and customers (besides their complexity and tacitness) and such competencies are specific to the company. The specificity of the company's will make imitation more difficult for competitors when these competencies have been created and associated within the company. Williamson (1985) identified four types of competencies' specificity: site specificity, where the set-up and location costs are great; human specificity arising, for example, from learning by doing; physical specificity including, for instance, specialised equipment; finally, dedicated specificity, as a generalised investment that produces output for specific customers. In short, the longer that the company possesses a specific competency, the more it can make such a competency difficult to imitate, and the sustainability of its competitive advantage.

From the discussion above, we can conclude that sustainability of a company's competitive advantage relies heavily on the ability of the company to create and maintain barriers that deter competitors to imitate the company's core competencies and its position within the market. In other words, tacitness, complexity, specificity and value are crucial characteristics of company's core competence to slow the erosion of its competitive advantage and to sustain it as long as possible. Human resource and culture issues in the context of mergers/acquisitions could provide such characteristics if the process of mergers/acquisitions is handled effectively and efficiently.

4.8 HUMAN RESOURCE AND CULTURE AS SOURCE OF COMPETITIVE ADVANTAGE

Resource-based views provide the necessary impetus to research in the strategic human resource management (Wright and McMahan, 1992; Lado and Wilson, 1994; Pfeffer, 1994). Scholars in this area argue that human resource satisfies the four conditions necessary to achieve sustainable competitive advantage: human resource is valuable, rare, imperfectly imitable and has no substitutes (Barney, 1991; Lado and Wilson, 1994; Pfeffer, 1994, 1995). Competitors can easily duplicate competitive advantage obtained via better technologies and products, but it is harder to duplicate the competitive advantage gained through better management of people. Resource-based views suggests that human resource systems can contribute to sustainable competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships, are embedded in a firm's history and culture and generate tacit organisational knowledge (Barney, 1992; Reed and DeFillippi, 1990). For example, superior advantages that have been obtained and sustained by giant companies, such as Marriott, Microsoft, and Merck, have been ascribed to unique capabilities for managing human resources in order to gain competitive advantage (Ulrich and lake, 1990).

On the contrary, the poor management of human resource systems could inhibit the mobilisation of new competencies or even destroy existing capabilities, which may lead to organisational vulnerability and competitive disadvantage. From a behavioural perspective, researchers have argued that human resource management practices can contribute to competitive advantage insofar as they elicit and reinforce the set of role behaviour that results in lowering costs, enhancing product differentiation, or both (Schuler and Jackson, 1987). It is currently recognised amongst strategic management researchers and practitioners that sustained competitive advantage stems more from a firm's internal resources, endowments and resources deployment that are imperfectly imitable than from the firm's product market position (Barney, 1991; Conner, 1991; Grant, 1991). The unique capabilities of the organisation's strategic leaders to articulate a strategic vision, communicate the vision through out the organisation, and empower organisational members to embrace that vision (Westley and Mentzberg, 1989), as well as the unique ability to enact a beneficial company-environment relationship (Hambrick and Mason, 1984) can be a potent source of sustaining competitive advantage (Lado et al, 1992; Castanias and Helfat, 1991). This is because managerial competencies determine the acquisition, development, and deployment of organisational resources, and they are responsible for converting these resources into valuable products and services that deliver value to organisational stakeholders.

Two fundamentally different bases of inimitability can be distinguished (Amit and Shoemaker, 1993; Hall, 1993; Lippman and Rumelt, 1982, Miller and Shamsie, 1996): property-based resources and knowledge-based resources. The former provides resources and competencies inimitability because these resources are protected by property rights such as contracts, deeds of ownership or patents. The latter resources are protected by knowledge barriers by the fact that competitors do not know to imitate a company's processes or skills. Knowledge-based resources allow organisation to succeed, not by market control or by precluding competition, but by providing firm skills to adapt their products to market needs and to deal with competitive challenges. The benefits of property-based resources are quite specific and fixed, and the resources are appropriate, mostly in the environment for which they have been developed. For instance, a process patent ceases to have value when it has been superseded by a new process; or a prize location become useless when customers move away. Knowledge-based resources, on the other hand, often tend to be less specific and more flexible (Miller and Shamsie, 1996). Therefore, property-based resources will be of greatest value in stable or predictable environment, whereas knowledge-based resources will be most useful in uncertain, that is, a changing or unpredictable environment.

Sustainability of superior financial performance of "excellent companies" such as IBM, Proctor and Gamble, McDonald, and H-P can be attributed to the managerial values and beliefs inherent within these companies' organisational cultures ("Corporate culture", 1980; Deal and Kennedy, 1982; Peters and Waterman, 1982; Tichy, 1983). Theorists in this field suggested that companies with sustained superior financial performance are typically characterised by a strong set of core managerial values that define the ways they conduct their business (Peters and Waterman, 1982). Researchers argue that these core values (on how to treat employees, customers, suppliers and others) that foster innovativeness and flexibility in firms are thought to be used in order to sustain superior financial performance (Corporate culture, 1980; Peters and Waterman, 1982, Barney, 1986). Such core values and beliefs (strong culture) are seen not only as a way of improving employee morale and quality of life, but also as vital for improving a firm's performance (Barney, 1986).

Numerous researchers have noted that companies are idiosyncratic social inventions, which reflect the unique personalities and experiences of those who work there (Barley, 1983; Polanyi, 1958). Companies are also historically bound and partially reflect the unique circumstances of their founding (Pettigrew, 1979; Selznick, 1957). Barney (1986) argued that culture must be valuable, rare and imperfectly imitable to become a source of sustained competitive advantage. However, in the context of merger/acquisition, such strong cultures would represent obstacles for the success of such strategies, as they are difficult to change; yet the effective management of the integration of two cultures could be a source of competitive advantage. More details about these concepts are discussed in chapters 3, 5, 6.

Chapter 5

5. CRITICAL APPRAISAL OF THE SALIENT LITERATURE OF HUMAN RESOURCE AND CULTURE COMPONENTS IN THE CONTEXT OF MERGERS AND ACQUISITIONS

5.1 INTRODUCTION

In chapter 3 we discussed the implications of human resource and cultural factors in the process of merger/acquisition. This chapter is devoted to an examination of the influence of culture differences and merger syndrome on the companies' members who were involved in merger/acquisition strategies.

People are the most precious organisational resources. The following organisational slogans would indicate that people are an invaluable asset for every organisation: "people are the most important asset"; "it is people who make the difference"; "it is the people who work for us …who determine whether our company thrives or languishes" (Yavitz, 1988). This communicates a very specific understanding: even with the guidance of a clear objective and the best strategies and job designs, the organisation must be well staffed with capable and committed people if it is to achieve an outstanding performance on a continuing basis in the context of the pressures of competitive and social change. Such an approach will be given greater emphasis when we come to strategies that entail restructuring such as mergers and acquisitions. Associated with the importance of human assets in the context of merger and acquisition, culture compatibility plays a critical role in the success of such strategies.

However, the literature in M&As reports high failure rates ranging from 50 to 80% (Marks and Mirvis, 1986). These financial failures share characteristics, among which are high turnover, low morale, decrease in job satisfaction and emotional distress and a reduction in productivity (Citera and Rentsch, 1993; Marks and Mirvis, 1985; 1986; Hubbard, 1999). These traits can happen in both the acquirer and the target. Such negative affects, which often associated with mergers and acquisitions, will be greatly exacerbated by a poorly managed implementation process as well as significant cultural differences. In other hand, when mergers and acquisitions are handled effectively, this would positively enhance the perception of employees toward the new company (merging company) with higher trustworthiness, management and organisation credibility and commitment to such a well-managed company, this, in turn, would support the success of mergers and acquisitions to achieve their potential.

This chapter is divided into two main parts:

I. The first part is related to human resource issues in the context of merger/acquisition, which in turn is divided into two sections: employee stress and the nature and causes of such stress and anxiety.
II. The second part is concerned with cultural issues in the context of merger/acquisition. This part consists of five sections: section one is about culture in general and organisational culture. Section two discusses the operational description of organisational culture. Culture differences and merger/acquisition success or failure is the subject of section three. Section four is devoted to the dilemma of organisational culture manageability in the context of merger/acquisition. Final section discusses the process of influencing cultural change.

5.2 HUMAN RESOURCE ISSUES IN THE CONTEXT OF MERGERS AND ACQUISITIONS

The following narratives illustrate the importance of the human elements in mergers/acquisitions:

Tom, a manager for a large diversified firm that sold a controlling interest to a hostile acquiring company, stated that "He worked for 18 years and gave them everything I had. Look how I end up, just like a run-over flat can in the street. There is no loyalty, no commitment, no feeling. When it got tough, they bailed out and let us sink" (Schweiger and Ivancevich, 1985).

Bader Al-dossari was a clerk in Saudi-American bank and he had 10 years experience. He stated that they tried to force him to resign by demotion from head of operations to clerk. He tolerated several types of insults because his job was the source of his income. One day they called him and gave him a redundancy letter, which shocked him. When I ask them why? They told him he was redundant, and then gave him three thousand to "close his mouth", but he refused this. Al-Dossari reports that nepotism and courtesy, which prevails within governmental agencies and private establishments, are the main cause of laying him off and others remain who are less than competent in terms of experience (Al-Watun Newspaper, 2000).

After four months of rumour, gloom and gossip, Joan, a financial control staff specialist, comments on the recent takeover of her company: "One day we are in business and the next day we disappear from the face of the earth. I'll have to start all over again learning the job, the policies, and the people. Is it really worth it?" (Schweiger and Ivancevich, 1985).

These items indicate the growing and critical influence that mergers are having on employees' attitude and feelings toward their newly acquired company. Having been employed in an organisation in which their memberships were secure, and then they now find themselves "sold as goods". Their expectations from the past are broken, and they suffer from feelings of triviality. The deficiency of knowledge about the acquiring organisation's expectations generates uncertainty and doubt about the future. In the company being acquired, there is the possibility of streamlining once the merger is underway. This would arouse worries about their retention in the new company. Moreover, top managers in the acquired companies often have not previously had an organisational structure above them. The higher-level group over them after the merger would produce a reduction of autonomy. For many managers, especially, entrepreneurial ones, a loss of self-esteem results from the decrease autonomy. In addition, the acquired firm sometimes has competed directly with the acquiring one, and feelings of antagonism and hostility may exist about management practices that were not considered to be fair. In contrast, the acquiring company often feel proud of their managerial elegance in accomplishing the merger. Such feelings are quickly communicated, though unwittingly to the members of the acquired company, thus, increasing feelings of insecurity and antagonism (Blake and Mouton, 1984).

These traumas and feelings that are often associated with mergers and acquisitions make such strategies stressful. In other words, mergers and the rumours associated with them often produce a variety of concerns for employees. The major one is how it will affect them in the short and long run. To most people, it is a period of uncertainty and insecurity that would generate a considerable stress and anxiety (Schweiger and Ivancevich, 1985). The next section discusses employee stress and anxiety often associated with merger/acquisition strategies.

5.2.1 EMPLOYEE STRESS AND MERGER STRATEGIES

Currently, researchers of the stress phenomenon have examined job, occupational, and personal factors such as work overload, time pressure, job security, responsibility, and self-esteem as potential contributors to a stress response and its consequences (Gal and Lazarus, 1975). However, to date neither researchers nor managers have systematically addressed and examined mergers stress and its consequences (Schweiger and Ivancevich, 1985). This study tries to fill part of the gap that exists in the merger stress literature by addressing employee stress as major variable in this study and relating it to the employee commitment and trust and the merged company performance.

By "employee stress" we mean a psychological state of disequilibria that occur for employees when the balance between the requirement to make an adaptive response to some change, event or condition and the behaviour of the employees is upset (Schweiger and Ivancevich, 1985). The disturbance that is caused by employee stress is very costly to the organisation if it is not managed effectively. The human and financial cost of occupational stress is increasingly being recognized, with over 10 percent of the UK gross national product spend each year in coping with the manifestation of job-generated stress. For businesses in the 1980s, stress in the workplace was ten times more costly than all the industrial relations disputes put together (Cartwright and Cooper, 1994). In terms of sickness absence and premature death or retirement due to alcoholism, it costs the UK a staggering £2 billion per annum. Such stress is primarily caused by fundamental change in which lack of control and high workload features such as mergers and acquisitions.

5.2.2 THE NATURE OF EMPLOYEE STRESS AND ITS CAUSES IN THE CONTEXT OF MERGERS AND ACQUISITIONS

Mergers and acquisitions may be merely financial transactions to those negotiating the deal, yet for the employees involved, the great bulk of whom are not shielded by the existence of any golden parachute such events would signify a major and possible emotional and stressful life occasion to those members.

Stresses and tensions always occur in organizational life. However during transitions and transformations that occur during a merger and acquisition, these stresses and tensions are greatly intensified (Buono and Bowditch, 1989). This leads us to distinguish mergers and acquisitions from other form of organizational change. The difference between the change caused by mergers or acquisitions and other form of organizational changes is considerable. Organizational change involves modification within an existing company where employees know the company, its culture procedures as well as management style; so there will already exist a mutual understanding between employees and the organization and possibly the existence of trust to some degree. In acquisitions or mergers, however, employees are often confronted with a new employer, procedures and culture, leaders and their management styles with no previous history and no underlying trust. As a consequence, these employees concerns and stresses would be magnified and more complex in such situation (Hubbard, 1999).

According to Marks and Mirvis (1985, 1986) the reactions that individuals reports when going through a mergers and acquisitions are part of a fairly predictable syndrome of merger-related stresses and tensions. Closely related to uncertainty and stress within the merger syndrome is the tendency of executives of many acquired companies to retreat to the crisis-management orientation when the deal is consummated (Mirvis and Marks, 1986). This orientation, which is often adopted by executives in the target companies, would exacerbate the merger syndrome as executives in this mode often insulate themselves and reduce their accessibility, promote a "groupthink" mentality, formalize communication and adopt an authoritative decision making style. Consequently, misinformation and rumors would supplant full and frank communication. This, in turn, will increase uncertainty and insecurity from the side of employees in both merging and acquiring companies, thus magnifying employee stress and concern. Moreover, the impacts of merger stress are cumulative in nature. A series of innocuous changes can add up to a large and significant change in the eyes of people involved, this will result in managers' resistance to such change (Marks and Mirvis, 1985). The merger stress and tension, unfortunately, could impose an uncontrollable burden on an individual, if such person does not have the appropriate ability and skill to cope with such conditions. More clearly, the reaction of individuals to such a stressful situation is a personal matter. In other words, responding to stress and tension involves perceptual interpretative behavior and psychological adjustments (Schweiger and Ivancevich, 1989). We can perceive how perplex are employees and organization reactions to merger and acquisition activities. This would conduce to psychological shock waves that appear to be unexpected, poorly understood, and inadequately addressed. As a result, there is much organizational trauma and stress that could be avoided, and many potential benefits of the destabilization are not seized.

For better understanding how individualized reactions and adjustments can occur in a stressful situation, Menninger (1954) elaborated a series of phases that encompassed the stress response and adjustment. These stages appear to be helpful to grasping and appreciating the potential stress and tension caused by mergers. The following is a summary of the sequence of phases that may come about through the course of a merger:

1. **Alarm stage**, when merger discussions are occurring between executives in both companies. Various individuals would perceive the merger and its perceived job and personal consequences in different ways. For some, there is increased arousal such as rumors, gossip, and cession of activities (e.g., being loyal to the organization); others might pursue their work as usual (e.g., I can not control anything so why worry about it?).
2. **Appraisal stage**, when individuals assess the ramifications of a merger, they often focus on what the merger means to them and how it affects them. Does the merger mean a loss of personal power, restructuring of the job being laid off, losing retirement and health insurance benefits etc.? A merger could be assessed well, yet trauma and stress associated with a merger for employees could be distorted, minimized or exaggerated. Therefore, merger appraisal necessitates both identification and recognition of the sources of pressure, uncertainty and anxiety.
3. **Coping strategy stage**, the negative physical, psychological and behavioral impacts that are often associated with mergers could be minimized through the mastery and control of such impacts by using appropriate coping strategies. However, no coping strategies would be prepared well by individuals to mitigate such negative impacts because individuals are often unfamiliar with mergers activities. Accordingly, coping strategies can be improvised that deal either directly with merger or indirectly with the consequences of the merger.
4. **Dysfunctional response**, this stage involves sharp dysfunctional effect states (e.g., grief, anomosity, anxiety, anger, hostility), inadequate ego defense, and poor cognitive organization. The final segment of this stage for some individual might be a state of either disorganization or exhaustion.

These stages could be applied to merger and acquisition since mergers or acquisitions are dramatic events for many employees and this will initiate the first stage of the stress response, which in turn can result in the second stage, and so on. Moreover, each stage involves related psychological, physical and behavioral aspects. The final output of the stress response can involve mastery, exhaustion or disorganization (Schweiger and Ivancevich, 1989). Moreover, to provide more insights on how employees react during a merger situation, it should be recognized that mergers do not create the same responses, types and levels of stress for all employees. Lazarus and Folkman (1985) identified three types of appraisals (responses), which people adopt during an event they face, that can help to analyse stress response. These types are as follow: 1)- irrelevant, 2)- benign-positive, and 3)- stressful.

If a merger is observed as having no effect, it is consider irrelevant. As Secretary in a newly merged company stated, "It really does not matter who is in charge. I still have to file, type, and answer telephones. As long as I am paid on Friday, Flash Gordon could be in charge and it would not matter" (Ivancevich and et al., 1987, P. 20). A benign-positive response is one in which a merger is seen as an opportunity to enhance one's self-esteem or position within a company. As one employee of a merged company stated, " I know my job and I know I am needed. It really does not matter who's steering the ship. The ship can not get back to port without me, my knowledge and skills" (Ivancevich and et al. 1987, P. 20). The stressful appraisal, which has the potential for high individual and organizational costs, can be subdivided into three categories: 1- harm/loss, 2- threat, and 3- challenge.

A harm/loss response signifies that that there has been some damage to a person such as loss of self-esteem or a sense of powerlessness. As one employee stated, "the rumor mill was hot every single day. I had no control what I heard or the course of events ...... the whole series of events made me sick. I now have ulcers, migraines, and eating problems" (Schweiger and et al., 1987, P. 128). Threat appraisal concerns the perceptions of harm or loss that have not yet occurred but are anticipated. As some managers stated, " we could not make a move (after the acquisition) without being told that our methods were outdated and we would have to adjust to the company's way of doing things. When I complained to the corporate executive about the situation, I was told that if I squawked too loud, my position would be in jeopardy" (Hayes, 1981, p. 131).

Final stress response is the challenge appraisal, which focuses more on the potential gain and growth. Challenged people have an advantage over threatened people in terms of morale, productivity and health. A challenge response is best reflected by the following comment by a clerk in an insurance company considering a merger "I just can not worry about this merger. I will find some thing to do if it happens. I am a survivor" (Ivancevich and et al, 1987, p. 21).

The personal signs of the merger syndrome in the above stated examples are evidence of the type of stress in mergers. According to Marks and Mirvis (1998) signs of human stress and trauma are present in all combinations, even in the friendliest and best managed ones. They stated, "that the most striking discoveries they found is that the merger syndrome arises even when the two companies have taken care to devise a thoughtful integration designed to minimize upheaval and provide due consideration for its effect on people" (Marks and Mirivis, 1985, P.50).

The reaction of employees to the merger activities would be confusion and complex to grasp, with it perceived by one person as a threat and an opportunity by another. However, if we recognize the individual as a stakeholder in an organization, this issue becomes clearer (O'Toole, 1985). Work and the careers associated with it are integral to most people's lives and help them attain those things that they value. Mergers are powerful events that have the potential to change these relationships. Closely relating to the nature of merger stress is that the concerns and tensions that are associated with merger and acquisition differs dramatically according to the position persons hold in the organization (Hubbard, 1999). It is needless to say that the primary concern of the vast majority of employees would be over their own job security as it is make no sense to be worry about the company's procedures and culture if you no longer an employee. Thus, job security represents a primary concern for all employees at all levels. What differed to a large extent are employees secondary concerns, which emerge when they mitigate fears over their own job security. The results that Hubbard (1999) research found is that senior managers are not particularly worried about colleagues, but they reported being worried about status, procedures, and culture issues. Non-managerial employees are more concerned about their colleagues and work group, while cultural, procedural concerns are of little interest of these employees. Middle managers reported very complex concerns where they worried about everything, they were not only concerned about their work group and colleagues but they also worried about procedural and cultural issues.

This distinction and findings in the employees concerns is helpful and important for understanding and addressing employee concerns successfully during mergers and acquisitions. However, failure to recognize such differences would lead and exacerbate human resource problems in merging and acquiring companies. For instance, if senior managers (which represent only a tiny fraction of company's total employees), set the communication plans and lead the merger and acquisition process based on their own personal concerns; this then would lead to a failure to address the issues that are of the greatest concern to the majority of the workforce. Moreover, if senior managers do not realize the importance of colleagues to employees, they might not recognize the influence of redundancies, relocations, and other detrimentally perceived changes to the remaining employees. If such issues are not managed effectively, these changes could produce a mass of negative feelings and badly influence the perception of employees towards the acquiring companies' procedures, culture and management (Hubbard, 1999).

To put such negative impacts of merger/acquisition in perspective, Mirvis and Lawler (1977) reported that a decline of one-half standard deviation in job satisfaction for a bank employee sample was associated with a cost of more than $17,000 per employee. The costs were primarily a result of increased absenteeism/turnover and decrease performance. Furthermore, Newman and Krzystofiak (1993), in their study of the changes of employee attitudes after an acquisition, stated that there is attitudinal declines ranging from one third to one half of a standard deviation; this suggests that acquisition costs would be in the range of $12,000-17,000 before making inflation adjustments. Thus, if we use the conservative figure of $12,000 per employee, then the acquisition of the 145-employee bank produced almost $1.75 million worth of human resource costs.

To reduce the merger/acquisition costs that are related to human resources, the organizations involved need to identify a mechanism capable of helping employees to adjust to the transition. Newman and Krzystofiak (1993) suggested three ways to alleviate the negative impacts of merger/acquisition: (a) changes in job characteristics, (b) changes in specific types of satisfaction, and (c) changes in attitudes toward the new organization. In this study, we suggested four mechanisms that would help merging/acquiring company to manage the process of integrating the two different cultures and alleviated the trauma and stress associated with such strategies: effective communication plan, effective integration strategy, effective coping programmes, and procedural justice. Each of these mechanisms will be discussed in detail in chapter 6.

5.3 CULTURE ISSUES IN THE CONTEXT OF MERGERS AND ACQUISITIONS

One of the human resource issues that plays a critical role in the success or failure of a merger is culture, an aspect that is overlooked in most mergers (Tetenbaum, 1999). One of the underlying reasons why mergers/acquisitions often fail to realize the operational and financial performance, as predicted by pre-combination feasibility studies, is the clashes and tensions, which emerge when companies attempt to merge disparate and frequently dramatically different cultures (Buono and Bowditch, 1989). Moreover, there is increasing evidence that cultural incompatibility is the single largest cause of poor performance, departure of key executives, and time-consuming conflicts in the consolidation of businesses (Ernst and Young, 1994). Most of the research on mergers/acquisitions, however, has primarily focused on the strategic and financial fit between the merger partners or acquirer and acquired companies (Shrivastava, 1986; Sales and Mirvis, 1984; Buono et al., 1985) with the role of cultural and the processes involved in merging two different companies being often underrated (Jemison and Sitkin, 1986; Schein, 1985). Although the clash between the cultures of the combining organizations has received growing attention by both practitioners and academics (see for example, Weber, 1996; Cartwright and Cooper, 1993a,b; Chatterjee et al., 1992; Marks, 1982; Porter, 1985), the literature on culture clash in mergers/acquisitions to date has a number of limitations (Weber, 1996). First, most of the research that has examined cultural compatibility remains in the theory building stage (Nahavandi and Malekzadeh, 1988; Jemison and Sitkin, 1986; Buono etal., 1985; Weber, 1996). Second, the few empirical studies that have tested the relationship between culture differences and merger performance focused primarily on participants in only one merger/acquisition case at a time (Bouno et al., 1985; Graves, 1981; Sales and Mirvis, 1984). Third, issues of cultural differences have received considerably less attention than strategic and financial fit, so the existing literature is limited, fragmented and anecdotal (Buono and Bowditch, 1989; Datta, 1991, Davis, 1984; Sales Mirvis, 1984; Marks, 1982). Finally, (according to my knowledge and the extensive research that I have done during the last three year in my

PhD programme), it is rare to find studies in cultural issues in mergers/acquisitions in developing countries such as Saudi Arabia.

To close part of the gap that exists in the mergers/acquisitions literature (particularly human resources and culture issues), I this study contributes uniquely in the literature in three important ways:

1. This study is the first conducted in the relation to Saudi Arabia, as the literature shows there is no research into human resource and cultural issues in the context of mergers/acquisitions.
2. This study surveyed all merger/acquisition cases that have been pursued in Saudi Arabia as well as corresponding number of similar non-merging companies. Comparison between these two groups as to the relationships between culture/human resource issues and financial, non-financial, and psychological criteria have been conducted. This comparison could discern the unique variables that would play a critical role in the success or failure of mergers/acquisitions.
3. This study has seriously taken into consideration the two critical perspectives at the same time: top managers and middle managers. Comparison between these perspectives can reveal the gap that exists between their mind-sets with regard to human resource and cultural issues in the context of mergers/acquisitions.

By such unique aspects of the study, we hopefully this study could fill part of the gap that exist in the merger/acquisition literature (particularly human resource and cultural issues).

5.2.1 GENERAL CULTURE REVIEW

The origin of most definitions of culture currently used in the social sciences stems from Taylor's (1891, p.1) definition of the concept as "the complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by a man as a member of society" (Buono and Bowditch, 1989). This definition is criticized because it is conceptually weak, and no clear consensus has been developed (Child, 1981; Bhagat and McQuaid, 1982). Based on the comparison between sociological and anthropological uses of the term, confusion of the culture definition can be clarified through delineating the main aspects of such concepts (Barnouw, 1975,1979; Buono et al., 1985; Morey and Luthens, 1985). The first aspect, central to both the sociological and anthropological uses of the term is the integrative theme of custom, which is the traditional and regular ways of doing things. Therefore, culture can be thought as being learned rather than genetic in nature. Second, it is shared by people as members of social groups rather than being an idiosyncratic attribute. Third, culture is also transgenerational and cumulative in that it is passed from one generation to the next. Fourth, it is symbolic in nature and a pattern that is organized and integrated in our lives. Finally, culture can be distinguished into objective and subjective culture.

This brief discussion would help us to understand the general view of culture. Furthermore, More specific definition of culture will be delineated next as organizational culture unfolds.

5.2.2 ORGANIZATIONAL CULTURE

A fuller understanding of the subtleties of organizational culture, three conceptual issues should be discussed.

First, Deal and Kennedy (1982) suggested that the differences between organizational cultures exist primarily across industries rather than between organizations within the same industry. This focus is an important influence on the development of corporate culture. However, while such global differences do exist and are useful as a guide for empirical research, the present studies suggest that culture differences between organizations in the same industry can be just as great as culture differences across industries (Buono et al., 1985; Peter and Waterman, 1982).

Second, organizations have both subjective and objective cultures. Subjective culture refers to the shared pattern of beliefs, values, philosophies, assumptions, expectations, attitudes, and norms that knit the members of organization together and influence the way groups perceive their organizational environment (Kilmann et al., 1988; Schwartz and Davis, 1981; Triandis et al., 1972). This includes such things as organizational heroes (that is, those people who personify the culture's values and provide role model for others), myths and stories about the organization and its leadership, organizational taboos, rites and rituals (Buono et al., 1985; Pettigrew, 1979; Smircich, 1983; Wilkin, 1984). Subjective organizational culture also encompasses what may be termed managerial culture, the leadership styles and orientations, mental frameworks, and ways of behaving and solving problems that are influenced by the values supported by the organization (Peters, 1980). Objective organizational culture, in contrast, refers to the artifacts created by an organization. These artifacts represent the physical setting, such as office locations and décor or a fleet of cars an organisation uses for its executives.

Both elements of culture (subjective and objective culture) are essential for complete understanding of a particular organization. Subjective organizational culture, however, offers a more distinctive basis for characterizing and interpreting similarities and differences among people in different companies. While objective culture might demonstrate similarities across companies, by definition, subjective culture is distinctive to a specific company (Buono and Bowditch, 1989).

Third, organizational culture can be perceived as existing at three levels. At the most superficial level is artifacts and creations (verbal, behavioral, and physical artifacts of culture), the visible behavioral manifestations of underlying concepts (Kilmann, et al., 1985, Dyer, 1985). This level is composed of technology, art, audible and visible patterns of behaviors, and other aspects of culture that are easy to see, hear, and feel when entering an organization but hard to interpret without an understanding of the other levels of the culture. In other words, these patterns of behaviors can provide clues, but rarely does it offer an answer to the question "Why" people behave as such.

The second level of culture is justification of behavior (norms) (Sathe, 1985; Dyer, 1982). This level reveals how people interpret, rationalize, and justify what they say and do as a group; how they "make sense" of the first level of culture. Thus, when we have a considerable body of information about norms that are dominant in an organization we can see and interpret why people in the organization work (behave) the way they do. However, the values and perspectives that have been encountered in an organization represent only manifestations of the organizational culture, not what it is known as the driving or essence of the culture (Schein, 1985). What really drives or creates the overt response behaviors and values in the previous levels are the pattern of learned underlying assumptions, which represent the third level of organizational culture (Schein, 1985). These hidden underlying assumptions are implicit, taken for granted, and unconscious unless called to the surface by some process of inquiry. These assumptions are the core beliefs and tacit premises that underlie the overt artifacts and perspectives and values. In other words, these underlying assumptions consist of beliefs, ideology, and philosophies that govern people's justifications and behaviors (Schein, 1985; Sathe, 1985). People are typically less aware of assumptions than they are of their common routines and practices. Yet, norms fall somewhere in between. This may be conducive to understanding and changing the organizational cultural focus on the most overt values and practices of culture and leave the tacit assumptions relatively unexplored. This could explain partly the difficulty and the higher rate of failure in the process of changing organizational culture. However, the process of changing culture should start from the overt part of the culture that is the official behavior and actions. In other words, an organization should identify the desired new patterns of behaviors and actions that the members of organisation should adopt (formal part of culture), then support and reinforce such patterns of behaviors and actions through reward systems and incentives. These motivational mechanisms would influence the norms of organization (informal part of culture), such influence has been explained by Lawler (1985): the patterns of behaviors and actions that are enhanced by the reward systems become the dominant patterns of behaviors in the organization. This lead to perceptions and norms in regards to the mission and value of the organisation. Beliefs and assumptions, which represent the core of culture, would be changed as desired over time, as the process of rewarding the desired patterns of behaviors and norms is continued. Thus, the real power of culture resides in the tacit assumptions that underlie it. These habitual ways of seeing and thinking about the world are powerful because people are rarely aware of them, yet they influence everything people do (Schein, 1985, Wilkins and Patterson, 1985).

Based on the above discussions about the concept of culture, we can come up with the following definition of organizational culture:

Organizational culture is a set of unique and tacit assumptions, beliefs, and philosophies shared among members and groups of an organization that have a great influence on the way they behave and interact with each other during their workday, how they perceive their organizational environment and make decisions.

This definition emphasizes the tacit assumptions and beliefs (third level of organisational culture) as the innermost core of organizational culture. This does not mean that other levels of culture are not important, but these unconscious and tacit assumptions and premises underlie the overt artifacts, behaviors and values. Number of definitions of organizational culture has been determined, which emphasize the tacit aspects of culture. Nelson and Winter (1982) defined culture as "the DNA of an organization-invisible to the naked eye, yet critical in shaping the character of the workplace". Marks and Mirvis (1998) view culture as breathing process. They argue that you cannot notice your breathing, but you just do it. You might not be aware of your breathing until it is violated and challenged. For example, if someone were to approach you from behind, cup their hands firmly over your mouth and nostrils, threaten your ability to breathe, then you would certainly pay attention to breathing (Marks and Mirvis, 1998). In the same token, the full potency of organizational culture can be seen during a merger/acquisition when two divergent cultures are forced to become one. Organizational members are so embedded in their own culture prior to major organizational changes that they rarely completely realize its impact on their behavior. Thus, during the process of cultural collusion, which occurs during a merger, a shock for organizational members as they live in different organizational context would ensue.

We can conclude from above discussion that the essence of organizational culture lie in the invisible part of culture, which is difficult to recognise and analyse. For analytical purpose organizational culture should be operated such that they are easily managed and easy to analyse.

2.2.3 OPERATIONAL DESCRIPTION OF ORGANIZATIONAL CULTURE

Elements of organizational culture can be described, but no one element by itself entirely makes up the culture of any one organization. This is because organizational culture is a mixture of interrelated components, or organizational processes (Galpin and Herndon, 2000). If we divided organizational culture into these processes (components), it becomes promising to establish an operational description of the culture, which in turn makes it possible to describe a culture that can be actively managed.

Galpin and Herndon (2000), argued that organizational culture can be created and continuously reinforced by processes that take place in ten areas:

I. Rules and policies
II. Goals and measures
III. Rewards and recognition
IV. Staffing and selection
V. Training and development
VI. Ceremonies and events
VII. Leadership behavior
VIII. Communications
IX. The physical environment

X. Organisational structure

When these ten areas and their connected processes come into contact throughout each workday, they jointly form an organizational environment surrounding the workforce; this environment in turns builds and reinforces the organizational culture. The interconnectedness of these processes can be clarified by the following example:

A company pursues a strategy of "quality excellence" that aims at generating higher revenues through high level of quality. To achieve such a goal most, if not all, the company's processes in the ten areas should strengthen a culture of quality excellence. The company should hire and promote quality-oriented candidates, train the workforce in techniques that support such quality, set objectives that are based on quality excellence, are employees measured against those quality-based objectives, reward and recognition should be given for high levels of quality, and establish rules and policies that enhance a strong quality orientation throughout the company.

In the case of merger/acquisition and when one partner or target company differs sharply in some aspects of culture from the other partner or acquiring company, identification of such culture differences and the desired culture of the new company is the starting point of the integration process for the two cultures. In order for the acquiring company to bring about the desired change in the target company culture and integrate it into its own culture and sustain such integration over time most, if not all, of the ten areas of culture have to support and reinforce such change and desired culture integration. In other words, the acquiring company could embed its main cultural aspects into the culture of the acquired company in the same way that it had done in building and maintaining its own culture: by driving and reinforcing the desired culture through the use of processes in as many of the ten organizational areas as possible (Galpin and Herndon, 2000).

2.2.4 CULTURAL DIFFERENCES AND MERGER/ACQUIRER PERFORMANCE (SUCCESS OR FAILURE)

Culture differences often seem to lie at the root of merger failures (Olie, 1990). However, There are few studies that have systematically attempted to measure culture differences and their effects in the context of mergers/acquisitions. One example of such a study is that conducted by Cartwright and Cooper (1993b), using a questionnaire, which measured cultural compatibility through attitudinal variables that included job satisfaction, commitment, and stress. Because the study was based on only one merger case and since the cultures of the merging companies appeared to be relatively similar, the effects of cultural differences on attitudes and behavior of mangers could not be detected.

There are other studies that used questionnaires to measure culture differences in larger samples of mergers/acquisitions (Chatterjee et al., 1992; Weber, 1996). Chatterjee et al., (1992) investigated the impact of cultural differences between merging firms and their stock prices after their merger. Based on a sample of 30 firms, they found that cultural differences between the two top management teams involved in the merger to be negatively related to shareholder gains after the merger. However, the influence of such cultural differences on the attitudes and behavior of top executives were not explored. Furthermore, the impact of culture differences on the effectiveness of the integration process and financial and non-financial performance, such as the image of the company after the merger and return on assets, were not explored. Based on a sample of 73 merging firms, Weber (1996) examined the relationship between cultural differences, autonomy removal, and top management commitment to a merger and the effectiveness of integration and financial performance of the merged organization. He found that the acquired managers' perceptions of culture differences to be inversely associated with the effectiveness of the integration of merging companies, while the autonomy removal and commitment were found to be positively associated with the financial performances. However, the way that the company mitigates or manages the integration of two divergent cultures was not investigated. Moreover, Weber's study did not examine how cultural differences support or retard merging companies to obtain and sustain competitive advantage in a changing business environment. This study aims to investigate these issues.

Although there is little empirical evidence from large samples on the influence of culture differences in the context of mergers/acquisitions, the details from many separate cases help to portray a clearer picture. According to those reports, cultural differences between the parties involved in merger/acquisition have created misunderstanding, lost identity, fueled emotional reactions, and escalated conflicts. Such clashes and the related negative attitudes of members of merging company might be a major barrier to the successful integration of the two merging companies. In a survey of European CEOs, "the ability to integrate the new company was ranked as the most important factor in acquisition success, ahead of financial and strategic factors" (Booz et al., 1985; Quoted in Cartwright and Cooper, 1993a). The key to manage the integration process is "...to obtain the participation of the people and create an atmosphere that can support [capability transfer] is the real challenge" (Haspeslagh and Jemison, 1991, pp.106-107). Weber (1996), found that there is a strong effect of cultural differences in the bank sample. He attributed this influence to two factors. First, culture is critical to service organizations since it serves as a potent control device in a highly uncertain and largely uncontrollable system. Second, the possibility of a high level of autonomy removal in such a sample, which is the result of a high degree of intervention in decision-making of target firm, would cause conflict due to autonomy loss and culture clash.

After a review of almost thirty major studies on the benefits and gains from mergers, Hall and Norburn (1987) suggested two possible hypotheses relating to the culture fit between partnering organizations. These are:

Hypothesis 1: there is a direct relationship between the degree of culture similarity of merger partners or acquiring and acquired companies and the success of the acquisition or merger.

Hypothesis 2: where high cultural differences exist between companies involved in mergers/acquisitions, the success of the acquisition/merger is determined by the amount of post-acquisition autonomy granted to the acquired company.

To establish criteria by which cultural differences could be assessed, Cartwright and Cooper (1996) considered the relationship between organizational performance and the effects of integrating two divergent cultures in the context of mergers/acquisitions. The topic of merger/acquisition performance has been at the forefront of academic research in the area of financial economics, industrial organization, and strategic management (Salter and Weinhold, 1979; Lubatkin, 1983; Chatterjee, 1986). Most financial studies have examined performance from the perspective of gain accruing to bidding and target firm shareholders as a result of acquisition announcement (Jerrell et al., 1988; Jensen and Ruback, 1983). However, the studies have provided only limited insights into factors that influence acquisition performance, or have explained why nearly half of all acquisitions fail to fulfill prior expectations (Datta, 1991).

Behavioral researchers emphasize that the support of employees of the acquired firm is dependent on cultural fit, or the degree to which they perceive their culture to be compatible with that of the acquiring company (Buono and Bowditch, 1989; Callahan, 1986; Sales and Mirvis, 1984; Davis, 1968). Without employees support, the expected performance from a merger is rarely realized. Management styles, which are described as an element of subjective culture of organization, are unique to organizations and might differ considerably across firms. For instance, management groups in different companies might have very different risk-taking propensities and decision-making approaches. Therefore, it is usual to find that policies and procedures, which seem to be reckless and extremely risky to one management group, appear to another to be a justifiable approach (Davis, 1868; Freeman, 1985). Similarly, while one management team rely heavily in decision-making on common sense, gut feeling, and rules of thumb, others emphasize formalized strategic planning systems, marketing research and various management science techniques (Mintzberg 1973). Significant differences in management styles between merger partners can contribute to, what Buono et al., (1985) call "cultural ambiguity", a situation characterized by uncertainties concerning whose culture will dominate. Generally, the acquiring company often ends up imposing its own style and culture at acquired firm, which would result in a loss of identity among the acquired firm's management (Hirsch and Andrews, 1983). This will elevate anxiety and distrust and decrease employee loyalty and commitment, especially from the side of acquired company. Such dysfunctional effects would be exacerbated during what Schweiger et al., (1987) termed "merger standstill" which often is associated with declining productivity and poor post-acquisition performance. Additional evidence is available in the form of case studies (Callahan, 1986; Lipton, 1982; Rappaport, 1982). These studies put forward that differences in management thinking and values are crucial contributors to the post-merger/acquisition problems.

A reward and evaluation system is widely considered as one of the main components of organizational culture (Galbraith, 1977; Napier and Smith, 1987; Kerr, 1985). Such systems do vary significantly across organizations, based on factors such as market or industry characteristics and the strategy that the firm chooses to adopt (Balkin and Gomez-Mejia, 1990; Govindarajan and Fisher, 1990; Lorch and Allen, 1973). Reward and evaluation systems are a crucial vehicle in reinforcing organizational culture (Kerr and Slocum, 1987). Changes made to the existing system (or imposition of a new system) after a merger/acquisition are likely to elicit strong reactions (Datta, 1991). Speculations about how the system might be changed are sufficient to elevate significant anxieties and conflicts, and to result in unsatisfactory post-acquisition performance. Thus, one can reasonably expect that the choice of the reward and evaluation system during the assimilation process is a critical determinant of post-merger/acquisition performance. In other words, while similarities in reward and evaluation systems allow for easier integration of the systems, critical differences between the merger partners or acquiring and acquired firms can be an important impediment to effective implementation of such strategies (Diven, 1984).

Consistent with the discussion above, we can argue that while compatibility in organizational cultures (e.g, management styles, reward systems, decision-making process) between merger partners or acquiring and acquired firms would facilitate the integration process, major differences in organizational cultures can prove to be serious obstacles to the success of the merger/acquisition.

5.2.5 THE DILEMMA OF ORGANIZATIONAL CULTURE MANAGEABILITY IN THE CONTEXT OF MERGER/ACQUISITION

Since mergers and acquisitions often call for changing the nature and character of the organizations involved, they can be seen as a form of organizational transformation, a process of large-scale change, which is characterized by a high level of complexity, multiple transitions, uncertain future states, and long-term time frame (Kilmann, Covin, and associates, 1988; Kozmetsky, 1985). Therefore, people's fears and anxieties could be elevated and uncertainties, stresses, and tensions would be increased. This may well result in a reduced organizational commitment, satisfaction and behaviors that work against the aims of the organization (Nadler, 1982; Buono et al., 1985; Ackerman, 1982).

Studies of the dynamics of mergers/acquisitions signify that it is impossible to prevent people' fears, uncertainties, and stresses from emerging and stop them from disrupting organizational processes in such situations (Buono and Bowditch, 1989). This is because there are many things that are beyond the executives' sphere of control. However, lack of complete control over the merger/acquisition process does not mean that there is no control. The crucial point here is to recognize the controllable and uncontrollable issues in mergers/acquisitions and identify the area that can be managed in the traditional sense and those that can be effectively managed through coping strategies (Buono and Bowditch, 1989).

In this sense, organizational culture does change. This is because culture is an integral part of a group' learning process and experience, so changes occur over time as people cope with shifts of the external environment (uncontrollable factors) and problems raised by internal integration efforts. Since assumptions underlying a culture (controllable if it is understood and deciphered) do not easily change, yet it is important to note that cultural transformation is typically an incremental and evolutionary process (Sathe, 1985; Wilkins and Bristow, 1987). Furthermore, mergers and acquisitions often entail a certain degree of culture change to succeed. However, such culture change, especially across disparate cultures, is often a time-consuming, financially expensive, and emotionally draining experience (Buono et al., 1985; Pettigrew, 1986; Sales and Mirvis, 1984).

We can conclude from the discussion above that cultural change is crucial in the context of mergers/acquisitions to achieve the goal of such strategies, yet such change is difficult to implement and financially expensive.

Although there is no popular approach to changing organizational culture that provides explicit advice and guidance on how such change can be implemented, attempts from researchers provide some tools to influence cultural change (Sathe, 1985; Nahavandi and Malekzadeh, 1988).

5.2.6 THE PROCESS OF INFLUENCING CULTURAL CHANGE

The old ways of managing a business (undesired culture) will not be transformed easily to the desired culture, unless the old ways are clearly inadequate for a majority of people. However, culture change can be viewed as unfolding in a series of stages, starting with changing the overt part of the culture (formal behaviors and actions) and ending with changing the core beliefs and assumptions (invisible part of the culture), which represent the culture.

Mergers/acquisitions often entail culture change in either the two partner's cultures or impose acquiring culture into the acquired firm. To increase the possibility of success in such change, executive teams have to understand and intervene in each of the basic processes that allow culture to perpetuate itself. According to Sathe (1985), there are two crucial approaches to influence cultural change in an organization: (1) getting members of an organization to consent to a new pattern of beliefs and values, and (2) recruiting and socializing new members into the organization and laying off members who do not conform with new culture.

According to the model, five fundamental intervention points and processes can be used to produce culture change:

1. Changing organizational members behaviors;

2. Justifying the behavioral changes;
3. Communicating cultural messages about the change;
4. Hiring and socializing new members who fit in with the desired culture;
5. Removing incumbents who deviate from the desired culture.

5.2.6.1 CHANGING BEHAVIOR.

To produce major change in an organization's culture, it is often begun by assessing and then attempting to alter employee beliefs and values. This way is consistent with the conventional wisdom; that is, beliefs and values influence employee's behavior, yet the opposite is also true. A substantial body of social science research signifies that one of the most effective ways of changing beliefs and values is to begin with altering its related behaviors (Aronson, 1976; Bem, 1970; Zimbardo et al, 1977; Sathe, 1985). Rewarding appropriate behavior would enhance overt behavioral compliance, but by themselves do not necessary translate into cultural change. This is particularly the case, when a company relies solely on extrinsic motivators (reward desired behavior) to bring about the desired change (Buono, and Bowditch, 1989, Sathe, 1985).

5.2.6.2 JUSTIFYING BEHAVIOR CHANGE.

Whilst behavioral change is a significant step for actual culture change to take place, the belief, values, and attitudes of organizational members have to be consistent with and reinforce the new desired culture. Culture perpetuates itself, even if behaviors change, because people tend to justify behavior change in terms of external rationalizations (incentives), yet they continue to stick to the beliefs and values of their old culture (Aronson, 1976; Bem, 1970). Thus, for desired cultural change to take place, executives should exert as much effort as possible to enhance appropriate behavioral change through intrinsic motivators (Sathe, 1985). One way is to persuade organizational members to review and question their current pattern of beliefs and values by convincing them that their assumptions do not conform to what is happening around them (Schein, 1973).

5.2.6.3 USING CULTURAL COMMUNICATIONS

For relevant culture change to take hold, executives and managers must also articulate and communicate the new organizational beliefs and values and convince people to embrace them. Communications that would enhance the desired culture change have an effect on both explicit and implicit levels (Sathe, 1985). The former includes announcements, pronouncements, memos, and other explicit forms of expression and communication. The latter involves rituals, customs, ceremonies, stories, decors, dress, and other forms of symbolic expressions and communication (Schein, 1973, 1985; Sathe, 1985). Both forms have to be used to persuade people to adopt the new cultural beliefs and values. The essential goal of communication strategy should be to promote a sense of common purpose among organizational members.

However, the credibility of both the message and sender could represent major barriers to bring about employees acceptance of cultural communication. In mergers/acquisitions, explicit and implicit communications often conflict with each other as managers say one thing and do something else (Buono and Bowditch, 1989). For instance, in the Urban-Suburban bank merger (Buono and Bowditch, 1989), employee descriptions of the "Christmas Massacre" and characterize Suburban bank's CEO's office as "Murderer Row" reflecting the outrage and sense of betrayal brought about by the violation of the "no layoff" promise. Since employees interpret such bad situations as symbols for the organization, these implicit communications critically influence shared beliefs about the organization and its leadership (Nystrom and Starbuck, 1984).

To bring about cultural change to the desired level, ongoing and consistent cultural communication are essential. Moreover, it is crucial that promises, images, and messages to be reinforced by consistent behaviours and actions in order for management to gain credibility. Actions and symbols are more likely have a more strong influence on people than speeches by upper-level managers. Reynold (1987), for example, describes a computer company that tried to produce an awareness of and commitment to product quality as part of the company's culture. Although the idea of high quality and defect-free products were verbally supported and given a great deal of ballyhoo at company meetings, defective software packages were still shipped. The result was a highly cynical assessment among employees of the gap between the actual and official culture. This situation has occurred because the company was caring only by explicit form of communications and neglected the significance of an implicit form of communications. In other words, if the company had supported its employees to infuse the principles of quality product through training and motivating them, high management credibility would have been the result, as there is a consistency between actual and official culture. In conclusion, the best way to ensure that the cultural communications are credible and successful is to enhance them with consistent actions and behaviors that correspond to the desired beliefs and values.

5.2.6.4 HIRING AND SOCIALIZING NEW EMPLOYEES

Organizational culture can be greatly influenced by hiring and socializing new employees that best fit with the new desired culture. Although a perfect employee-culture fit is highly unlikely and largely undesirable (Falvey, 1987), watchful attention should be taken to the selection and socialization process. For example, Proctor and Gamble (P&G), well known for its "thick" culture, uses an exhaustive application and screening process for new employees (Pascale, 1985). In this sense, P&G facilitate an applicant's deselection, on the assumption that the candidate has the best understanding of whether the company fit with his own beliefs, values, and objectives.

5.2.6.5 REMOVE DEVIANTS

The final point (process) of intervention that can influence the organizational cultural change is to weed out incumbents who do not want to accept the new desired beliefs and values. The process of removal can be through terminations (involuntary turnover), where a person is asked to resign or is fired outright (Bailey, 1987; Patterson, 1988), in major culture change, some of the turnover will be voluntary, especially among those who feel particular discomfort with the change. In Urban-Suburban Banks merger, for example, turnover was significantly higher among former Urban Bank members, then followed by a gradual loss of dissenters (Buono and bowditch, 1989).

However, a high degree of turnover, whether voluntary or involuntary, can be dysfunctional. Negative effects of a high staff turnover can be explained by the following reasons:

Firstly, it is difficult to absorb a substantial number of newcomers in a short time (Sathe, 1985). Second, a considerable number of new employees can intensify internal political maneuvering as people compete for position, especially at the higher levels. Third, the mass departure of important employees and the performance downturn that usually follows a merger/acquisition (Pritchett, 1985) can result in a loss of talented people who are essential for the company's future success (Perry, 1984). Finally, the withdrawal of significant personnel (whether voluntary or involuntary) would increase dissatisfaction and lower morale among those who remain (Marks and Mirvis, 1998).

In short, effective change of the organizational culture to the desired beliefs and values in the context of mergers/acquisitions call for recognizing the following:

I. Both partner's cultures in a merger (or acquiring and acquired cultures in the acquisition) must be analysed and understood in the early stages of the merger and the values and beliefs that underlie each culture must be deciphered as a prerequisite for a successful merger/acquisition.

II. Deciding which organizational culture will be adopted: using one or other culture, creating a culture that incorporates the strongest aspects of either culture, or creating a completely new culture.

III. Cultural change should be pursued through a process of growth as evolution rather than revolution, especially when the culture intended to change is thick one. In other words, cultures grow as organizational members develop extensive cognitive maps and value systems that are based on a steadily maturing, complex, and interwoven matrix of shared history. A "quick fix" is not suitable in such situation.

5.3 SUMMARY AND CONCLUSION

This chapter illustrated the interactions and reactions that individuals report when going through merger/acquisition activities. It explained that, while organisational mergers/acquisitions tend to be associated by high level of stress abd anxiety, organisational members vary significantly in their ability to handle the uncertainties and stresses involved. We used "stress-appraisal model" (Lazarus and Folkman, 1985) in orger to understand the ways in which organisational members react to the variuos tensions and strains raised by merger/acquisition activities. This model classify the merger effects into three groups: irrelevent, benign-positive and stressful.

The other crucial element that the chapter illustrated is cultural differences. This element pose the main obstacle that limit the success of many merger/acquisition cases. This is because merger/acquisition often entail integrating two different cultures. This, in turn, call for changing the cultures of the two companies involved or at least one of them. Culture change is difficult task since it is related to the people's assumption and believes, which are invisible and difficult to be recognised and need much time and effort to change. This chapter explained the difficulties ans subtilities in the concept of organisational culture and the process by which culture chang is conducted.

Merger/acquisition, therefore, is ultimatily a human process as such strategies precipitate significant life change for organisational members. If mergers/acquisitions are to be successful over the long term, inherent human problems and ramifications must be acknowledged, understood and managed effectively. The next chapter will discuss the mechanism by which human and cultural issues are handled.

Chapter 6

6. THE MECHANISM OF MANAGING HUMAN RESOURCE AND CULTURAL ISSUES IN THE CONTEXT OF MERGERS/ACQUISITIONS

6.1 INTRODUCTION

We have considered the various related issues (problems and concerns) that are associated with merger/acquisition strategies in the previous chapters. These problems and concerns range from individual fears, anxieties, and stress-related reactions to organizational cultural constraints and tensions. In addition to this, recognizing the complexity, time-consuming and hidden-costs involved in the process of implementing such corporate strategies. Furthermore, it has been established that there is a higher rate of failure in the context of merger/acquisition strategies. Therefore, it is imperative to understand, prepare for, and effectively manage the process of implementing such strategies to increase the possibility of realizing all the synergistic benefits and the competitive advantages that the merging (acquiring) company intends to achieve. However, top managers often fail to consider or are unable to manage the numerous complex organizational culture and human resource issues that arise during mergers/acquisitions (Mirvis and Marks, 1986; Bouno et al., 1985). This could certainly explain the disappointing results that have been achieved by such strategies. According to a number of merger/acquisition researchers, much of the failure and subsequent divestiture of merger partners and acquisition targets is due to ineffective management of the implementation process (Blake and Mouton, 1985; Blumberg and Wiener, 1979; Haspleslagh and Jemison, 1987; Pritchett, 1987b).

One of the realities of mergers and acquisitions is that top managers often find that they cannot always control the timing and the process of combination-related events and interactions (Buono and Bowditch, 1989). This can be attributed to three important factors inherent in the combination, which act as obstacles to the success of implementing the merger/acquisition process (Jemison and Sitkin, 1986b). These factors are: (1) involvement of specialists and analysts with narrow focuses and independent goals, which can result in multiple, fragmented views of the agreement;

(2) increased momentum to close the deal can limit the consideration of integration issues; (3) inability of merger partners to sort out significant areas of ambiguity before completion. If we add these factors to the inherent anxieties and tension experienced by employees and cultural differences between involved companies, the situation will be complicated and can often lead to a chaotic period of adjustments. However, mergers/acquisitions provide an excellent opportunity to make necessary changes that may be entirely unrelated to the merger. This is can be done because a merger produces so much destablisation, and people automatically expect change in such situations. In other words, because of the upheaval that is often brought about by mergers/acquisitions, people are in a position to tolerate much more change than at any other time. Management, therefore, is in an ideal situation to seize the moment and to achieve desired changes, which would be far more difficult, if not impossible, under routine circumstances (Pritchett et al., 1997; Hubbard, 1999; Buono and Bowditch, 1989).

Managing such a situation poorly would cause negative impacts lasting several years. This is measured in the drain on both human resources and operational results. Therefore, to handle the process of the implementation of mergers/acquisitions effectively, executives have to consider not only the short-term consequences of a crisis management orientation and distraction from performance, but also the enduring and unintended consequences for employee attitudes and behaviours and for organizational effectiveness and performance. Because each merger/acquisition is unique, there may be no single best way to manage such strategies. Personalities, products and procedures differ considerably from one company to another, making a "one-size-fits-all" prescription for achieving productive results being ill-advised. However, based on the extensive investigation of related literature in the context of mergers/acquisitions, four factors have been identified as significant for managing any merger combination effectively. These factors are:

I. Effective communication plan (Bastien, 1987; Napier, 1989; Schweiger and Denisi, 1991; Gopinath and Bercker, 2000);
II. Effective integration approach (Shrivastava, 1986; Jemison and Sitkin, 1986a,b; Blake and Mouton, 1984);
III. Effective coping programmes (Buono and Bowditch, 1989; Marks and Mirvis, 1997; Schweiger and Weber, 1989);
IV. Procedural justice (Meyer, 2001; Gopinath and Bercker, 2000; Hubbard, 1999)

Accordingly, this chapter has been divided into five main sections. The first four sections present a detailed discussion into the four main factors for managing human and cultural issues, and as mentioned above and one section is devoted to one factor. The final section provides information regarding merger/acquisition outcomes involving performance and employee commitment and trust.

6.2 COMMUNICATION PLAN

There has been increasing acknowledgement of the vital role that communication plays within corporate life through increasing the organisation's efficiency, employee morale, and commitment. Moreover, during times of change, communication provides a greater function as it is used to in order to convey the ramifications and transformations brought about by mergers/acquisitions. During merger/acquisition, communication channels have to deliver a huge amount of information in a planned and timely manner. Thus, communication during merger/acquisition become more complex and more important than it was during an organisation's normal working environment (Hubbard, 1999). The research literature implies that communication is the most important factor throughout the entire merger/acquisition process (Bastien, 1987; Schweiger and DeNisi, 1991). It considerably influences the adoption of a new culture, the change-process itself, and the level of stress employees can experience. Providing clear, consistent, factual, sympathetic, and up-to-date information in various ways will increase the coping abilities of employees, which will in turn enhance productivity. The increased in productivity would support the company's performance positively in order to gain and sustain its competitive advantage through achieving the strategic fit and synergies (Appelbaum et al, 2000; Barney, 2002). Therefore, an effective communication plan appears to be a critical factor for the merger/acquisition process to be more effective and successful.

However, most managers interpret communication needs in relatively narrow and traditional organizational terms. Smeltzer (1991), in his study of 43 companies, found that only four out of 43 companies studied had a written communication strategy for announcing the changes. He reported that management felt that the communication of the changes was not an important issue and unnecessary. He also reported that in 80% of the cases, the lack of communication caused their failure, as there were large differences between the intended changes and what actually occurred. Finally, he stated that the biggest indicator of communication failure was seen by the presence of negative rumors that intensified due to employees depending primarily on informal sources such as the press and via the "grapevine". Furthermore, every case study of a merger/acquisition reports communication shortages at one time or another during the merger/acquisition process (Bastien, 1987; Buono et al., 1985; Hayes, 1979; Marks, 1982; Marks and Mirvis, 1985, 1986; Schweiger et al., 1987). This could partly explain the higher rate of failure in the context of mergers/acquisitions.

Why is informal communication the main source of information during mergers/acquisitions?

If we recognized that mergers/acquisitions often produce anxiety and potential negative repercussions to the employees in the companies involved in such strategies, executives tend to carry out the negotiations and combination plans in secret for as long as possible for the purpose of minimizing uncertainty amongst employees (Graves, 1981). However, because of the sensitivity of the issues involved in such strategies, rumors and speculation about the impeding consolidation usually leak out and contribute to heighten the sense of stress and anxiety. Communication gaps would ensue as a result of such a tendencies. Thus, employees attempt to fill these communication gaps through informal interpersonal communication that organization have little, if any, control over. Because of the absence of any real information, employees fill in the blanks with their own speculations, which may be fueled by fear, uncertainty, and doubt. The result is that the answers they create are invariably far worse than the reality that awaits them (Feldman and Spratt, 1999). Estimates suggest that employees spend about two hours per day (roughly one-quarter of their work time) gossiping and worrying about an unfolding mergers or acquisitions (Cabrera, 1986; Wishard, 1985).

6.2.1 EFFECTIVE COMMUNICATION PLANS

Communication is an interpersonal process of sending and receiving symbols with meaning attached to them. Through communication, people exchange and share information with one another; through communication, people influence one another's attitudes, behaviors, and understandings; through communication, managers listen to others and gain the understanding needed to create a motivational workplace and manage employee expectations. In this sense, therefore, communication is essential to managerial success in the normal working day (Mintzberg, 1973; Schermerhorn, 1996). In wholesale changes, such as mergers and acquisitions, communication takes on greater importance, as it is essential for their success. Communication includes not only formal verbal and written communication but also informal communication such as actions, gesture, and feedback.

Figure 6.1: Elements of the Communication process (Schermerhorn, 1996)

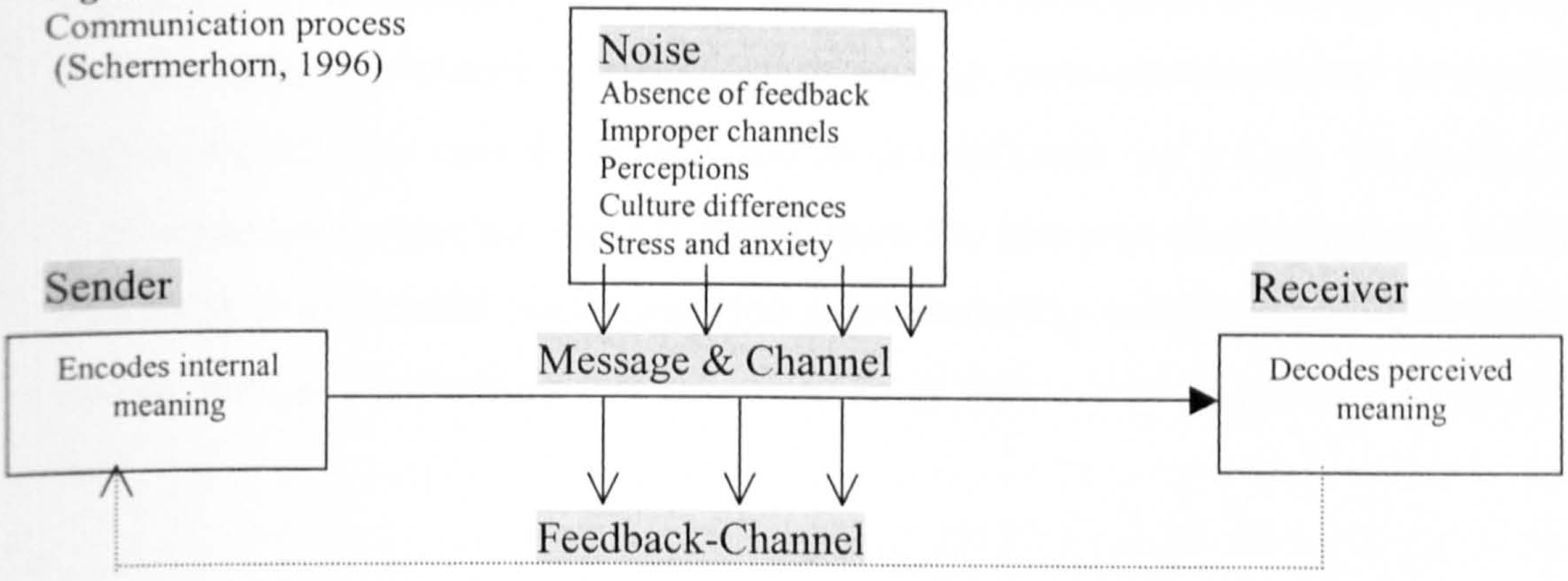


Figure 3.1, depicts the key components of the communication process (Schermerhorn, 1996; Hubbard, 1999). It involves: A *dispatcher (sender)*, who is responsible for encoding an intended message into meaningful symbols, both verbal and non-verbal. The *message* is the idea or subject to be sent (e.g., merger announcement, some branches to close, no job loses). *Communication media* is the vehicle by which the message transfers (travels) from sender to its recipient (e.g., face to face meeting, newsletter, telephone hotline). *Recipient (receiver)* (e.g., employees, customers, shareholders..) is the one who decodes or interprets the meaning of the message, which may or may not match the sender's intentions. *Feedback* is the reverse process that conveys the receiver's responses back to the sender. Noise is anything that interferes with the effectiveness of the communication process (e.g., culture differences, rumors, perceptual distortions).

Effective communication occurs when the receiver interprets the meaning of the message as intended by the sender. Thus, oral face-to-face communication, for example, is considered to be the most effective vehicle of communication since there is immediate feedback between the sender and the receiver, whilst e-mail and written communication is the least effective one as it is one-way communication. However, written communication is the most efficient method of communication while face-to-face is the least efficient media, as it needs much more time and resources to be conducted. Efficient communication, therefore, occurs at minimum cost in terms of resources expended (time, energy, cost). According to the above discussion, it appears that there is a paradox for achieving the effectiveness of communication. In other words, effective communication may not always be efficient. For instance, for a manger to visit each employee and explain a new change in organizational culture would guarantee that everyone truly understands the change, however, it is very expensive to undertake. Conversely, efficient communication is not always effective. For example, a low-cost communication such as company newsletter or a message sent by e-mail may save much time and be cost efficient, yet it does not always result in everyone recieving the same meaning from the message (Schermerhorn, 1996). To guarantee a successful communication process during merger/acquisition, managers should aim at maximizing the effectiveness of their communication at a reasonable cost.

6.2.2 COMMUNICATION MEDIA OR CHANNELS

Managers use a variety of oral, written and nonverbal channels every day. Oral communication takes place via the spoken word in face-to-face meetings, telephone calls, formal briefings, video-conferences, and so on. When conducted well, these can increase the effectiveness of the communication by allowing for feedback, encouraging spontaneous thinking and by conveying personal warmth. Written communication takes place via written words in the form of newsletters, memos, bulletin board releases, e-mail and so on. When it is conducted well, written messages have the advantage of being able to reach many people in a cost-efficient manner (Schermerhorn, 1996). Managers should select the appropriate channel or combination of channels that best enable them to achieve the intended purposes in a given situation. During the merger/acquisition process, the extent to which channels of communication will be selected depends upon the size of the audience (receivers), the size and complexity of the message, and the amount of time and resources the organization has available to achieve its aim. It is incorrect to believe that the best form of communication is always spoken (Hubbard, 1999). For instance, when large amounts of detailed information must be sent to a large number of employees in geographical dispersed locations, written communication is the most effective channel. Moreover, the changes in employee "terms and conditions" or pensions should be written down in order to guarantee accuracy in dealing with large amounts of detail and to allow employees to refer to the changes at a later date if so desired. Redundancies, however, should be discussed face-to-face with those affected and never handled solely via written communication (Hubbard, 1999).

An effective communication strategies employ a variety of media (Hubbard, 1999; Clemente and Greenspan, 1998; Daniel, 1999). The justification of such a strategies should be based on the following rationales:

I. Due to the complex nature of the various internal receivers (audience), it would be impossible to send a blanket statement via one communication channel to all levels of employees. Thus, using several media sources to convey the message to various receivers, such as face-to-face meetings, in conjunction with written correspondence, would be far more effective in understanding the message than using only one.

II. Time and cost considerations will necessitate using a variety of media to cover the majority of the affected stakeholders. For example, within large organizations, face-to-face meetings cannot be held with all employees and other stakeholders on "day one", therefore, other media must be used in conjunction with face-to-face meetings when weighing up the cost, effectiveness and coverage of the process involved.

III. Different employees retain information through different means. Habbe (1976) found that 60% of employees retain information from reading whilst 40% gather information from hearing it. If management communicates repeatedly while using only one channel, it is effectively missing half of its employees. Therefore, the use of more than one channel with a consistent message should be used to reinforce the central message.

IV. Some employees may not be effective communicators. If organizations rely solely on cascading information down through the organizational structure, it is guaranteed that the message will be inconsistent and patchy. Therefore, the use of more than one channel of communication in order to convey important messages would increase the likelihood that the messages will received and be understood.

6.2.3 CHARACTERISTICS OF EFFECTIVE COMMUNICATION

Communication is the cornerstone of managing stakeholders' expectations. The acquirer's or merger partners' management may have the most sophisticated merger/acquisition plan but if its intent is not communicated well to the affected employees, the bulk of the positive effects associated with extensive planning is lost (Hubbard, 1999). Therefore, to order to effectively manage employees' expectations during the mergers/acquisitions process, executives should take into consideration the following factors when designing a communication plan to ensure its effectiveness:

I. All communication should be clear and honest. Studies have repeatedly shown that employees value honesty in communication more than any other attribute (Hubbard, 1999; Clemente and Greenspan, 1998). It is important to ensure that inaccurate information is worse than no information at all. The correspondence of the communications with what is actually happening has been found to be as essential for the quantity and collegiality of communication efforts (Bastien, 1987; Buono and Bowditch, 1989). Moreover, the actions of top managers should tend to signify the values and orientations of the companies involved, even though they may not be intended as such. For example, the reaction of employees to the "Christmas massacre" in the Urban-Suburban bank merger, was exacerbated by the "no layoffs" statement prior to the integration. This action signifies that the new owners or merger partners may deceive the employees (Buono and Bowditch, 1989). Furthermore, Hubbard (1999), "noted that research has found that employees would much rather know all information including bad news rather than know nothing, be told incorrect platitudes from management or hear of future events in euphemistic terms" (p. 98). Feldman and Spratt (1999), emphasized that a merger/acquisition communication plans have to be anchored on four rules: "no secrets, no surprises, no hype, and no empty promises" (p.68). Thus, honesty and precision of communication would greatly enhance management credibility and help to mitigate the impacts of uncertainty and insecurity, which can be associated with merger/acquisition process. This, in turn, would reinforce the employees commitment toward the new management.

II. Messages should be consistent and repeated through various channels and with subsequent actions. These channels may include newsletters, memos, face-to-face meetings, telephone hotlines, local newspapers and informal channels. It is crucial to ensure the consistency of the message is repeated through various media to enhance the success of the communication plan. This includes the correspondence of internal messages that are repeated through various channels as well as consistency between internal and external communication. In the cases when communication is inconsistent, the acquirer or merger partners could be accused by employees of having hidden agenda, secrets and political maneuverings within the context of a low trust environment. When employees do not receive a consistent answer, they make up their own, which is usually wrong and highly negative (Bastien, 1986; Hubbard, 1999). Moreover, employees perceive the consistency of communication with the subsequent action as assessment of whether or not an employer successfully manages their expectations. If a message is communicated by the employer and then unfulfilled, "expectation dissonance" will occur; if met, both credibility and belief in the communication sources would be enhanced. Also, if a message is communicated and then unfulfilled, yet an adequate explanation is given detailing the reasons why it did not happen, management credibility and trust can be restored to a great extent (Hubbard, 1999). Therefore, the greater the number of channels giving a single message followed by specific consistent and visible actions, the lower the likelihood of misunderstandings will occur. This would support management credibility that produces a trusting environment within the new organization. This environment is crucial for the acceptance of any change in the employee-employer relationship, which is considered to be main source of competitive advantage.

III. The message should be communicated in a timely manner and by using appropriate channels. Most research suggests that the creation of formal internal communication channels should be started as early as possible for the purpose of reducing much of the anxiety that is fueled by rumors, the office grapevine, or even outside news reports (Buono, Bowditch, and Lewis, 1988; Hayes, 1979; Marks, 1982; Pritchett et al., 1997; Bastien, 1987; Feldman and Spratt, 1999). In order to effectively inform organizational members about the process and planned outcomes of an upcoming merger or acquisition, Taft (1981, p.32) suggested a staged approach to communication. Key managers and executives should be informed before the announcement is made to middle managers, supervisors and employees. The timing of the announcement that a merger/acquisition proposal has been approved should be arranged so that employees hear it first from within the organization. Dull

(1986) has suggested that informing employees only one hour before the merger/acquisition announcement is made public can lessen the shock and increase trust in future internal communication.

6.2.4 FUNCTION OF THE COMMUNICATION PLAN IN THE MERGER /ACQUISITION CONTEXT

Effective and informative communication serves to reduce employee stress and anxiety in a variety of ways (Bastien, 1987; Napier et al., 1989, Mirvis and Mark, 1992). Firstly, it helps people to make sense regarding the uncertainty surrounding them and to estimate how the changes will influence them and their working conditions. Secondly, it supports the trust in management through establishing a climate of openness and frankness. Finally, it signifies that management has a game plan and is able to articulate it. Effective communication is crucial for the success of the merger/acquisition process. Studies have found that months after following the merger/acquisition, an adequate communication plan correlated highly and positively with employees' having feelings of personal control, organizational commitment, lower uncertainty, increased performance and job satisfaction. In other words, when communication stopped or was not channeled well, employees experienced increased distraction, guilt, job insecurity and often intent to be absent, and so the merging company/acquiring company's performance declined (Davy et al., 1988; Napier et al, 1989; Schweiger and DeNisi, 1991; Gopinath and Bercker, 2000).

In Hubbard's, study (1999), she found that acquirers that failed to communicate effectively saw a fall in employee trust, and in feelings of fairness during implementation and in management credibility, and in an increased level of intention to leave the organization. Other findings found that ineffective communication was reported to be the single most significant cause of poor motivation, general discontent and rumor generation during a merger/acquisition process (Mitchell and Holmes, 1996). Moreover, "merger syndrome" is a phenomenon first mentioned by Marks and Mirvis (1985, 1986, 1997) and is characterized by increased centralization and decreased communication by management towards its employees. The lack of top-down communication would encourage the rumor mill to be agitated as employees become preoccupied with themselves, their income and their career. In this situation, distrust and lower commitment are inevitable and become widespread all over the merging/acquiring company (Appelbaum et al, 2000). The literature indicates that communication is crucial to the successful integration of two clashing cultures (Balmer and Dinnie, 1999; DeVige and Spreier, 1999). Although changing corporate culture often confronts extreme resistance, an appropriate communication plans would make such changes take effect successfully (Appelbaum et al., 2000). In other words, any upheaval to the change process is intrinsically difficult to sustain, although, providing timeliness and increasing the amount and method of information needed would significantly increase the chance of its success (Schweiger and DeNisi, 1991; Buono et al., 1989). Accordingly, the most important way to implement a merger and to change a culture successfully is to be open and honest with the employees. In this way, employees are better informed and equipped to handle the disequilibrium that is brought about by changing or merging two different cultures (Appelbaum et al., 2000). The open dissemination of information of future changes in organizational structure and culture has the impact of reducing employee stress levels (Smye and Grant, 1989).

Consistent with the argument above, we can conclude that the anxiety and stress often associated with the uncertainties and ambiguities, are increased by the merger/acquisition process and can be alleviated and reduced by designing an effective communication plans. This would enable employees to successfully face the dysfunctional impacts of the change successfully. Providing employees with candid and honest communication during a merger process would enhance the confidence in the new system and management and increased employee commitment to the new company. This, in turn, would support positively the performance of the new company, as the hidden cost of merger processes would be decreased, which often arises from cultures clashing and stressful situations. However, an ineffective communication plans would increase the possibility of the failure of a merger/acquisition to realize their potential as the hidden cost often associated with such situations could be heightened.

6.3 INTEGRATION APPROACH

Forming two previously independent and often competing organizations into a single entity through a merger and acquisition is not an easy task. Hundreds of times each year, agreements to pursue mergers/acquisitions take place with great plans and high expectations for success. However, the complexity and the challenging task of integrating two different cultures, historical, traditions, policies and procedures could limit the possibility of success if such an integration process was not mismanaged. Arthur Leuis (1982) estimated (in his study of ten mergers) that 80% failed to live up to projections. This result indicates that the dynamics of forming two companies into one needs to be better understood than they are at present time (Blake and Mouton, 1985). Mergers and acquisitions are often traumatic and stressful events. If employee stress and tension was not dealt with effectively, an employee's cooperation would be lost and resistance would be heightened. This could lead to complication in the integration plan, which in turn, may hinder the success of a merger/acquisition (Ivancevich et al., 1987; Schweiger and Ivancevich, 1985, Buono and Bowditch, 1989).

The merger/acquisition process is often distinguished itself between deal making, which focuses on financial, legal and strategic issues (negotiation and due diligence), and the integration of both companies' policies, systems, structures, people and cultures. This dichotomization of the merger/acquisition process is often the main source of subsequent problems that hinders a merger. In other words, the acquirer or merger partners tend to pay attention to closing the deal, by focusing on economic formula and cost-benefit analysis whilst the integration process is often given scant attention (Tetenbaum, 1999). The Economist (1999) notes: "success will depend more than ever on the merged company's ability to create added value; and that will depend mainly on what happens after the deal has been done, yet many deal makers have neglected this side of the business." Furthermore, according to the survey that was conducted by Booz Allen and Hamilton (1996), European and Asian managers awarded American merger partners high scores for pre-bidding skills, such as negotiation and due diligence processes whilst the area of executing the integration process gained the worst score. That is to say, the emphasis on the financial/strategic issues in conjunction with the neglect of integration issues has been identified as a major factor behind failed mergers.

Mercer Management Consulting found that success or failure three years after a deal could be explained by the presence or absence of an effective integration plans. In fact, Mercer found that an effective integration plans could improve the chance of success by as much as 50%. Unfortunately, most companies do not effectively manage the integration process, so this value is lost. The Boston Consulting Group also found that prior to acquisition, fewer than 20% of the companies had considered the steps necessary to integrate the acquired company into their own organization (Tetenbaum, 1999). Here, the integration process occurs at several levels. The initial and perhaps the easiest integration level occurs through the integration of procedures that are achieved by merging the accounting systems of the two firms to create a single legal entity. Another level is the integration of physical assets, product lines, production systems and technologies. The most critical integration level is the integration of cultural and human resources issues (Shrivastava, 1986). Integrating human resource and cultural issues are more likely to incur the most difficult and least examined post-merger integration problems. It involves a complex combination of issues relating to the selection or transfer of managers, the changes in organizational structure, the development of a consistent corporate culture and the gaining of commitment and motivation from personnel (Deal and Kennedy, 1983; Marks, 1982; Savings and loan news, 1983).

However, the majority of merger failures is attributed primarily to the lack of effective integration of human resources and cultural issues. A study conducted by the Conference Board in 1998 found 9 to 13% of Human resource people surveyed agreed that people issues play no part in the process until the merger becomes official. The report stated that, "although human resource issues are a crucial aspect to such strategies, these concerns are still not dealt with effectively in the majority of merger/acquisition transactions that take place." Moreover, managing such strategies is often seen as the responsibility of investment bankers, accountants, consultants and corporate lawyers, yet such a view tends to be too narrow. Financial and strategic issues are crucial for the success of mergers/acquisitions, but if culture and human resource components are not well integrated, the acquiring company or merger partners could find themselves incurring hidden costs with high price tags (Buono and Bowditch, 1989; Pritchett et al., 1997; Marks and Mirvis, 1998; Tetenbaum, 1999).

Integrating two cultures effectively is critical for the success of the merger/acquisition. According to Kotter and Heskett (1992), found companies that managed their cultures well versus those that did not showed revenue increases of 682% versus 166%, stock price increases of 901% versus 74%, and net income increases of 756% versus 1%. In addition to this, high divergence between the merger partners or acquiring and acquired cultures could complicate the integration process and increase the possibility of the failure of such strategies as the two cultures could clash, which could cause the merger/acquisition failure if such differences were not recognized and managed well in advance. For example, Exxon acquired Vydec Corporation for the purpose of integrating new technologies into its operations. The two companies have very different cultures. Vydec is a small, high-spirited and entrepreneurial manufacturer of word processors whilst Exxon is a giant Corporation that is known for its aloofness, fierce independence, and bureaucratic way of management that focuses on efficiencies and cost-cutting. The two companies' cultures, systems and procedures were so different that there was continual conflict and clashing over product design, a marketing strategy, financial resources and even day-to-day operations. Exxon's strong culture stifled morale at Vydec and finally lead to its divestment (Shrivastava, 1986). Another example was the merger between Daimler and Chrysler, which appear to be successful and have provided complementary benefits, yet they were culturally divergent. The Wall Street Journal (May 26, 1998) views the different attitudes toward the compensation component as the "trickiest" cultural issue faced by such a merger. American investors believe successful executives are entitled to a piece of the action so American executives can take tens of millions of dollars as long as he adds billions to the bottom line. In contrast, Germans believe that executive pay should be closer to that of the average worker. According to The Economist (May 9, 1998), Europe considers the enrichment of an individual on the back of workers to be regarded as exploitation. An American analyst cited in the article agreed that there are viable synergies to the merger but he is not optimistic about the success of integrating different companies together (Tetenbaum, 1999).

Consistent with above discussion we can conclude that insufficient attention to diagnose and understand the cultural differences and people elements impacts on the success/failure of merger/acquisition strategies during the early stages and could explain the high rate of failure in the integration process which in turn prevents the merger from meeting expectations. Therefore, an effective integration plan is must be regarded as a prerequisite for the success of the integration process in order to the increase the probability of the success of mergers/acquisitions in achieving their true potential.

6.3.1 EFFECTIVE INTEGRATION PLAN

Whilst mergers may be a good growth strategy, can one sustain such growth and performance for a long period? The answer lies in how well (effectively) one integrates the two companies after the merger into one viable entity (Shrivastava, 1986). A number of writers have suggested ways to effectively integrate two companies into one unit. Tetenbaum (1999), recommended seven key practices that would improve the chance of success for the expected integration and synergies. These seven practices could be summarized in the following: Firstly, recognize the importance of human resources and cultural issues through designing the integration processes well to redress the imbalance and resources should awarded for deal making vs integration; concentrating on the marriage not merely the wedding. Make the integrated team members equal partners with the finance and legal staff throughout the merger process. Select the best people for the integration team from both companies and then assign them to the organization's effort on a full-time basis and provide them with all the resources needed to accomplish a full and appropriate cultural integration plan. Finally, keep everyone's focus on managing people's performance to minimize a post-merger drift and maximize attention and efforts towards achieving strategic goals.

Shrivastava (1986) indicated that integrating human resources and cultural issues is the most complex and problematic issue arising during the merger process. He suggested that the managers' participation from both companies in the decision making at the early stages of the merger/acquisition process is crucial in order to facilitate the process of integrating human and cultural issues. He, also, signified that cultural and human integration could be facilitated through the processes of socialization and mental readjustment amongst the managers in both companies. This can be done through transferring managers from one partner/acquiring to the other partner/acquired company. According to Shirley (1977), two elements are of paramount importance for the success of integrating the two merger partners: Firstly full and free communication and participation by those most affected and flexibility in the process should be emphasized. Secondly communicating the personal benefits of the change to the employees candidly and honestly would lessen the intensity of the employee resistance. The study by Blake and Mouton (1985), of a successful merger, illustrate that the effective integration of mergers can be achieved through employing honest and open communications, participative problem solving, and collaborative reorganization process.

For effective transition to a new entity Ivancevich et al. (1987), indicated the importance of constructing a transition team to manage the integration process.

According to them, transition teams should be composed of influential executives and managers from both parties. This would ensure full representation of key stakeholders in the transition team. Such a team becomes an informed and motivated team as well as a creating a sound plan to the manage the merged or acquired company and could be invaluable by preventing the main sources of stress (Schweiger and Ivancevich, 1985; Schweiger et al., 1989; Ivancevich et al., 1987; Handy, 1969; Davis, 1968). Integration teams are a common means of employee participation during the merger/acquisition implementation process. Obviously, not all organizational members can be involved in bringing about combination-related changes because it is simply not practical to have everyone involved in the process. At the same time, however, it is important to include as many people as feasible legitimate, appropriate and supported by top management (Buono and Bowditch, 1989; Hubbard, 1999; Blake and Mouton, 1985; Ivancevich, 1987; Mirvis and Marks, 1987). The interaction within and between members of integrating teams provides an opportunity for managers from both companies to get to know each other and provides employees with a channel for interaction and to exchange ideas with management. This association can begin to resolve much of the "us versus them" mentality that inhibits the integration process (DeMeuse, 1987; Gordon, 1987). Such transitional teams, however, may not automatically resolve combination-related problems because of the cultural strains and clashes emerging from extreme cultural differences and related ethnocentric attitudes. Marks and Mirvis (1986), for example, report two hospital management teams that worked closely together during a merger of the two organizations. The groups met regularly, and, instead of simply focusing on operational issues and concerns, each group tried to explicitly clarify each firm's values and philosophies as well as their own impressions of one another's operation. In this situation each team valued its own culture whilst deriding the culture of the other. Yet, if such clashes and strains are properly acknowledged and dealt with, these insights could be employed as a guide on how to handle the integration process (Buono and Bowditch, 1989; Marks and Mirvis, 1998; Pritchett et al., 1997). In other words, these insights could uncover the points where the two cultures were compatible and the areas where they clashed and resistance may have occurred. Therefore, it is preferable that teams integrate the areas where the two cultures are compatible at first. However, in dealing with the areas where resistance and clashes are high, teams should move cautiously and slowly, with each team and respect the differences or the orientations of the other (Buono and Bowditch, 1989).

Based on the merger integration literature, the following points are critical in order to enhance the effectiveness of the transition team's work:

I. The mind-set of participants should be characterized by trust, commonality of purpose, and a cooperative spirit (Marks and Mirvis, 1998)

II. Integration teams should clearly define the topic being assessed, timeframe, outcome deliverables, and expected behavior in achieving the objectives (Hubbard, 1999).

III. The members of the teams should not be dominated by any one side (usually the acquirer) since this will demotivate the other side and create a bias towards the dominant party (Hubbard, 1999; Pritchett et al., 1997).

IV. It is important to know which employees are key to the success of the merger/acquisition and involve them in the teams. Also, members of the teams should be selected from both merging companies, and from diverse functions and geographical locations to ensure fairly balanced representation of the key employees and managers in the transition teams. Full-representation would foster employee commitment and send a positive signals to the remaining workforce and improve the odds that the plan for integration could be effectively implemented (Pritchett et al., 1997; Hubbard, 1999; Marks and Mirvis, 1998; Ivancevich et al., 1987).

V. It is more efficient and serviceable to layer integration teams into three different levels: a steering committee, a merger team, and a variety of task-force teams. The structure and roles of each of these layers can be organized as a steering committee provides direction to the integration effort towards the strategy and policy. The merger team drives the integration forwards and maintains discipline in the project. The task-force teams address specific organizational issues needing attention because of the merger/acquisition event. The assortment of task-force teams takes their orders and reports to the merger team. In turn, the merger team is ultimately accountable to the steering committee (Pritchett et al., 1997; Hubbard, 1999).

External consultants could also contribute to the effectiveness of the integration process, especially when merger partners do not have the time or in-house expertise to lead the implementation process. Outside consultancies, with the assistance of the human resource functions, could play a critical role in assisting management in focusing its attention on and addressing employee stress, culture clashes, and crisis management successfully (Devoge and Spreier, 1999; Appelbaum et al., 2000). Those consultants would provide objectivity and a commensurate the skill base. It is also cheaper to employ external consultants rather than to keep full-time acquisition specialists on hand if one is not acquiring with regularity (Hubbard, 1999; Pritchett et al., 1997, Schweiger et al., 1989). However, some disadvantages could limit the contribution of external specialists in facilitating the integration process. They may be unfamiliar with the activities of the two merging companies. This would limit their ability to engage effectively in the integration process. Also, during times uncertainty, consultants are often used as political pawns by senior management involved in power struggles (Hubbard, 1999).

6.4 COPING PROGRAMMES

It is fair to say that mergers/acquisitions involve restructuring. There is no such thing as a merger without some degree of change -in either structure, philosophy, systems, strategy or location (or all of these) (Daniel, 1999). In other words, change is inevitable in the context of mergers/acquisitions. As we discussed previously, in such situations employees often experience high levels of stress, trauma, tension, and anxiety, which results from uncertainty, insecurity and cultural clashes that are associated with such changes. This, in turn, would lead to employee anger, shock, disbelief, hopelessness and helplessness (Bowditch and Buono, 1987; Marks and Mirvis, 1998; Schwieger et al., 1987). In such situations employees of merging companies need help and support to cope with the resultant stress and tension. From a managerial perspective, it is important to assist employees and managers to cope with such feelings because residual anger and personal loss can persist on the part of employees for years following the merger or acquisition (Levinson, 1970).

We have discussed that effective communication could reduce the uncertainty and insecurity associated with merger/acquisition, then mitigating the stress level. However, communication, as valuable and necessary as it is, is mostly passive: The employee base receives messages that are designed to inform and motivate, but true action is required to enable people to think and function in ways that allow merging companies to harness the collective capabilities and forcefully begin competing in the marketplace (Clement and Greenspan, 1998). Moreover, designing effective coping programmes or participating with others to manage and deal with mergers syndrome issucs (employee stress, anxieties, culture differences) can lead to lower stressful reactions and facilitate the cultural integration required because coping programmes and tends to increase employees' and managers' feelings of mastery or control over their situation (Schweiger and Ivancevich, 1985; Gal and Lazarus, 1975). A sense of mastery is crucial for effectively managing the stress created by a merger and for alleviating emotional upheaval. This sense of control is important not only because it has direct influences on actions but also because it colours a person's cognitive interpretation of the real world. A merger situation and its accompanying series of threatening events could become manageable or even amusing and interesting when we feel a sense of mastery, even though actual control has not changed. What has changed is our understanding and knowledge of the merger situation. Thus, it is the subjective sense of control over the situation that is essential, not the objective one (Schweiger and Ivancevich, 1985).

Based on merger/acquisition the literature, three activities are selected, which could enable people to gain a sense of mastery over merger syndrome and cope with such situations and these are: (1) survey feedback, (2) effective training programmes, (3) employee counseling and individual motivation

6.4.1 SURVEY FEEDBACK (MERGER STRESS SURVEY)

Diagnostic surveys are a critical sources of information with which to build and implement appropriate coping strategies that could enhance the ability of employees and managers to cope successfully with a merger/acquisition situation. It is important to assess this information as quickly as possible for the purpose of understanding the range and scope of the intervention required to effectively combine the firms and to achieve strategic goals. The results of the survey can be utilized for planning programmes and a sequence of activities to minimize stress and tension levels and to help employees acquire mastery in the merger environment (Buono and Bowditch, 1989; Schweiger and Ivancevich, 1985). Typical areas of concern in merger/acquisition related surveys are attitudes toward such facets as employee commitment, job satisfaction, interpersonal relations, job security, management policies and styles, and compensation and benefits. Understanding expectations about what will happen in a merger/acquisition is quite important, especially in the context of creating and assessing a realistic merger preview (Buono and Bowditch, 1989; Schweiger and DeNisi, 1991).

6.4.2 TRAINING PROGRAMMES

To actualize and transfer the strategic drivers (synergies) of mergers/acquisitions, extensive training programmes should be effectively designed for the purpose of influencing employee behaviour and attitudes that change as a means of expediting integration, transferring critical skills and aligning corporate culture. Moreover, mergers/acquisitions have a negative human impacts, which can be manifested in the form of job insecurity and a lack of productivity. Educational measures can be an effective way to mitigate such pervasive employee sentiments. More clearly, proactive training strategies can help employees to cope with the emotional upheaval accompanying a merger/acquisition (Clement and Greenspan, 1998, Marks and Mirvis, 1998). A training course in merger stress could effectively mitigate the trauma and tension often associated with a mergers/acquisitions. Two useful methods for identifying merger stress are individual checklists and group sharing. Trainers should explore with trainees the individual coping strategies (cognitive restructuring, autogenic relaxation, and personal goal-setting). It should be recognized that the correct use of any of the coping strategies will not totally eliminate all of the stress generated by a merger, yet each of these coping strategies can provide individuals with the opportunity to feel a sense of mastery over their lives in the new organization (Schweiger and Ivancevich, 1985).

Effective communication takes on greater urgency in the post-merger environment in the light of the obvious challenges of integrating and aligning corporate culture (Hubbard, 1999; Schweiger and DeNisi, 1991; Bastien, 1987; Daniel, 1999). Thus, special communication training programmes are crucial to improving employees' verbal (both speaking and writing), interpersonal, and group communication skills (Clement and Greenspan, 1998). Thus, we can emphasise that training programmes can enhance the effectiveness of communication. For instance, if one of the merger partners often asks its employees to function in small group settings, or to present at auditorium-sized gatherings, the public-speaking, presentation skills and confidence of employees who may not be used to communicating in such situations and forums needs to develop and will improve through effective training activities (Clement and Greenspan, 1998).

The merged company will most likely have new requirements for employees' personal advancement in terms of both status and compensation. One of the merger partners may have promoted employees based solely on seniority whilst the other may have to promote its employees on the basis of attaining rigorous performance objectives. Such differences in career development should be clarified and addressed in one-to-one sessions between employees and their managers. Also, training activities can play an important role in educating employees regarding the ways to advance within the new organization (Clement and Greenspan, 1998). In a mergers/acquisitions, training can link the critical components of different organizational infrastructures. Also, training helps to facilitate the transfer of skills, not only from employee to employee, but also from one merger partner to another. Training ensures that the most qualified people are developed, motivated and retained in the merging company. These benefits of training would contribute to increased productivity, morale, feelings of personal growth and positive self-worth. The result of which would increase a higher level of employee retention (Clement and Greenspan, 1998).

6.4.3 EMPLOYEE COUNSELING AND MOTIVATION

Whilst group training is an efficient way to fulfill the needs of some employees and produce a support system among co-workers, these efforts may not be enough for individuals to develop appropriate coping strategies to deal with merger-related stress and anxiety. Therefore, an individual counseling effort would be important in helping people to understand what is happening in the organization and their lives. Counselling can be useful both to differentiate between the real and imagined effects of a merger and would help employees to clarify their own needs and expectations with regards to their roles in the organization and their lives (Buono and Bowditch, 1989).

Merger-related counselling can be categorized into three groups (Schweiger and Ivancevich, 1985, pp.85-60): (1) personal adjustment counselling (focusing on a person's emotional responses to the merger); (2) educational counseling (providing employees with information on the merger and its underlying process); (3) career counseling (attempting to clarify issues dealing with choices and opportunities). The objective of one-to-one sessions is to help employees solve the problems associated with the merger/acquisition integration process and to recommend, demonstrate and initiate coping strategies that would enable them to improve their mastery of the merger situation. It should be recognized that the three types of counselling could interrelate and overlap in practice. The counsellors in each of these three types need to be skillful in listening, communicating and understanding as well as have knowledge of the two companies involved and have an ability to create and maintain rapport with their clients (Bouno and Bowditch, 1989; Schweiger and Ivancevich 1985).

A financial reward systems can be an effective way to help employees to cope with the restructuring processes and merger situations. Some companies have been successful in retaining key employees by offering "stay bonuses" or employment agreements to remain. Other companies have provided stock options, sign-up bonuses and other short-and long-term incentives (e.g., performance units, restricted stock, etc.) (Daniel, 1999). Employee protection clauses also would provide ways for employees to successfully deal with traumas and uncertainty. These clauses involve employment contracts, benefits, thrift plans, severance pay, retirement plans, job transfers and moving provisions. More clearly, informing employees about the types and length of severance pay and benefits would help them to prepare for and plan their lives after the possible merger. Providing employees with information and assurance will be important in reducing uncertainty and stress.(Ivancevich et al., 1987).

Consistent with the above discussion, we can argue that designing coping programmes accompanied by effective communication would negate the trauma and tension as well as facilitating culture integration as employees gain control over their merger syndrome with such coping strategies. This would support the credibility of new organisations and employee loyalty. This, in turn, would enhance the new company performance, as the hidden costs associated with upheaval changes will be substantially reduce. The hidden costs that are associated with changes such as a merger/acquisition take the form of declining morale, commitment, loyalty and trust of those who remain post-combination. These particular consequences often have immense costs for the new firm in terms of future productivity, the eventual turnover of key organizational members and a loss of opportunities that were not seized because of the general malaise created by the combination (Buono, Bowditch, and Nurick, 1987; Ivancevich, Schweiger, and Power, 1987; Walsh, 1988).

6.5 PERCEIVED JUSTICE

Mergers/acquisitions represents a sudden change in the implicit employment contract that exists between the employer and each employee. This would have a potential negative human impact, which takes the form of attitudinal decline and increased labour turnover (Newman and Krzystofiak, 1993). If the financial payoff of a merger/acquisition is to improve (Lubatkin, 1983), employers must recognize that employees, especially in the acquired company are frequently going to have such negative reactions (Newman and Krzystofiak, 1993; Marks and Mirvis, 1998; Buono et al., 1985). Justice perception and fairness of action have been found to be effective factors in alleviating such dysfunctional attitudes, which, in turn, would enhance the possibility of the success of the merger/acquisition implementation process (Hubbard, 1999; Meyer, 2001; Gopinath and Becker, 2000). However, few studies have explored these important factors in the context of upheaval such as mergers/acquisitions and divestitures (Meyer, 2001; Gopinath and Becker, 2000).

This study, therefore, attempts to involve itself in the procedural justice literature in the context of merger/acquisition through exploring the relationship between procedural justice and attitudinal factors (commitment and trust), merging/acquiring company performance and how procedural justice plays the part as a success factor in the context of merger and acquisition.

6.5.1 ORGANIZATIONAL JUSTICE DEFINITION

Organizational scholars have known for years that fairness of organizational policies and procedures positively affects people at work (Adams, 1965; Leventhal, 1976). Organizational justice describes the individuals' (or groups') perception of fairness of treatment received from an organization and their behavioral reaction to such perceptions (James, 1993). Two related elements of organizational justice appear to have been widely adopted in the literature regarding both distributive and procedural justice. Distributive justice is the perceived allocation of the organizational judgments (that is, are they made in an equitable fashion within the organization?). Procedural justice is the perception of how fair are the procedures are used to allocate those outcomes; it comprises three components: the decision making procedure, the explanation of that procedure, and finally the treatment of individuals during the implementation of these outcomes (Greenberg, 1990). Procedural justice implies that the process of gaining the result is often more of a determinant of employee reaction than the result itself (Hubbard, 1999). For example, in her study of Scottish Yeast and Quality Guarding, Hubbard (1999), found that in Scottish Yeast more people were made redundant, yet as the procedure was generally considered fair, there was less of an uproar over the redundancies. Therefore, even if the outcome is negative, the negative influence can be alleviated if the procedures for arriving at that result are perceived as fair. In other words, individuals might be unhappy with the actual outcome of a process, yet they will accept such a result if they recognize that the process has been managed through open and honest communication and perceive itas being fairly determined and implemented (Hubbard, 1999; Clement and Greenspan, 1998; Marks and Mirvis, 1998; Buono and Bowditch, 1989). Thus, in this study procedural justice will be used to represent organizational justice in the context of mergers/acquisitions.

6.5.2 PROCEDURAL JUSTICE LITERATURE IN THE CONTEXT OF MERGER AND ACQUISITION

Lamertz (2002), stated that justice perceptions were a strong predictor of satisfaction within the managerial maintenance of the relationship between employees and the organization. A central finding in this literature is that the perceived fairness of the means by which organizations make decisions have a strong influence on employees attitudes and perhaps, to a lesser extent, their behaviour (Lind and Tyler, 1988, Gopanith and Berck, 2000). It has been evident in recent work that the perceived justice of the organizational decision-making process influences employee reactions to pay rises (Folger and Konovsky, 1989; Greenberg, 1987b, 1990) reengineering (Sapiensa, Korsgaard, and Schweiger, 1997), and strategic implementation (Kim and Mouborgne, 1993). Perceptions of procedural justice also strongly influence the reactions of the survivors of layoffs (Gopanith and Berck, 2000). Brockner et al. (1994), found that when procedural justice was perceived to be low, survivors and others reacted more negatively to the extent that the outcomes were perceived to be depressing. In contrast, among survivors who felt that procedural justice was high, the perceived the negativity of the outcomes as having no effect on their reactions. Employees' reactions to layoffs may differ across contexts (American Management Association, 1997). For instance, when layoffs occur as a response to declining organizational performance, employees might perceive the layoffs as logical and necessary to corporate survival and, therefore, see the layoffs as justified. On the other hand, when the layoffs are the result of restructuring following changes in corporate strategy, employees might perceive layoffs as unnecessary and unfair (American Management Association, 1997; Gopanith and Berck, 2000). Furthermore, when employees believe that the mergers/acquisitions were handled fairly (e.g., there was a good reason for the sale, and promises made during merger were kept, layoffs were handled fairly), they should be more likely to trust the new owners and to have a high level of post-merger commitment to the new organization (Gopanith and Berck, 2000). In other words, when employees perceive a low level of procedural justice with regards to the merger/acquisition process, we should expect that employees would trust the new owner less and have a lower level of post-merger commitment (Gopanith and Berck, 2000).

Although perceptions of procedural justice undoubtedly reflect actual events (e.g., merger, the sale of a division), employees' perceptions of fairness are likely to be coloured by managerial communication with regards to those events. For instance, previous research has demonstrated that by allowing employees to have a voice (the opportunity to provide input to decision makers) and to make justifications for decisions are both effective ways to enhance their perceptions of procedural justice (Greenberg and Folger, 1983). In the context of a merger, open and candid communication with employees have been shown to reduce dysfunctional outcomes (Schweiger and DeNisi, 1991), as such effective communication will help employees to recognize and understand the events surrounding the merger, who then support the perceived procedural justice (Gopanith and Berck, 2000). Employees also accept that integration will not always go according to plan and that they must be able to change with respect to environmental fluctuations and unforeseen circumstances. Providing there is logical justification behind such changes through effective communication, employees would support the perception of fairness of such changes. In contrast, if change, especially that has a negative impact on the workforce, is accompanied by no rational explanation, feelings of injustice and exploitation will occur (Hubbard, 1999). Moreover, once decisions are made regarding functions and people, it is critical to treat those employees who will be negatively influenced by the deal with dignity, respect, and support. This type of treatment not only enhances the perception of fairness in the eyes of affected employees, but it is a powerful way of showing those who remain a positive view of the company they are now working for and to help them begin to develop some positive feelings towards the new entity (Daniel, 1999).

6.5.3 FACTORS THAT ENHANCING THE PERCEPTION OF FAIRNESS

Resistance is easily escalated, especially in the context of an upheaval such as a merger/acquisition, and the only way to prevent it from building up is to handle the situation very carefully and fairly (Appelbaum et al., 2000). Employees also report understandable fears of termination. These fears are intensified by perceptions that the process was conducted unfairly- for example, some of the terminated employees were "more deserving to stay" than some who remained (Newman and Krzystfiak, 1993). Based on the procedural justice literature there are a number of factors and suggestions that appear to be applicable in order to enhance the perception of fairness (Leventhal, 1976):

I. The criteria for promotions and terminations should be consistent across both people and time. Favoritism and inconsistency in conducting such issues will breed suspicion, hostility and feelings of unfairness (Hubbard, 1999, Newman and Krzystfiak, 1993).

II. The criteria for promotions and terminations should be unbiased. Evidence suggests that employees perceive performance-based criteria as the most fair (Schweiger et al., 1987).

III. Terminations and promotions should be based on accurate data. This recommends that the acquiring firm or merger partner should invest time in collecting performance data after the merger/acquisition before making any decisions ((Newman and Krzystfiak, 1993).

IV. Employees affected by the termination should be represented in the process of such decisions. If employees have some hand in determining the outcome they are more likely to perceive such decisions as fair. Yet, this is reliant on the employees' ability to communicate their views and opinions openly during the decision making process. More clearly, the more open and participatory the forum, the greater the likelihood of the procedures being perceived as fair. On the other hand, if employees have provided input only to have it ignored in the decision-making, has a detrimental effect, and creates a feeling called the "frustration effect" (Hubbard, 1999; Newman and Krzystfiak, 1993; Greenberg and Folger, 1983).

V. Fair and courteous treatment of those affected by the decision is perceived as a key determinant of the outcome's perception. For example, in choosing a layoff procedure, attempts should first be made to use a voluntary system. Early retirement for those with vested pensions might be desirable; also offering attractive severance packages could motivate individuals with a marginal commitment to leave. At some point non-voluntary attrition may be required. Effective displacement, severance benefits and training programmes can help facilitate the termination process fairly. These procedures could mitigate the severe stress and tension of the layoffs decision not only on the affected employees, but on those that remain in the new organization (Ivancevich et al., 1987, Hubbard, 1999).

In harmony with the above line of reasoning, it can be argued that the ramifications of organizational justice are very important factors for managing employees' expectations during the merger/acquisition process. When employees judge the procedures to be fair, a fair process effect would positively spill over to employee loyalty, job satisfaction, employee commitment, management trust and organizational performance. When a merging/acquiring company works hard to manage trauma and stress, which is often associated with such strategies, they may build an image of fairness and portray the merger/acquisition as a new phase of the company's life cycle that may open doors for exciting opportunities. This would positively affect not only remaining employees, but the positive impact will spill over to other stakeholders-customers, suppliers, distributors and the society as whole. This, in turn, would support the public image of the company. Therefore, organizational performance could be enhanced by the employee's perceived fairness through two ways: increased revenue through customer satisfaction as they receive service from committed employees. In addition to, decreasing in the hidden costs often associated with a mergers/acquisitions through effectively managing human and cultural problems pertaining to merger/acquisition. In contrast, if unfairness has been perceived through managing human and cultural issues, the opposite ramifications would ensue.

6.6 OUTCOMES (THE RESULTS OF MERGER/ACQUISITION)

The literature assessing the outcomes of a mergers/acquisitions typically uses two types of measures (Napier, 1989): (1) Performance measures (Jensen and Ruback, 1983) and (2) Reactions of the parties involved in the merger/acquisition (Buono et al., 1985; Weber, 1996).

6.6.1 ORGANISATIONAL PERFORMANCE

The notion of performance in some settings seems to be clear enough. In athletics, for example, the fastest runner, the highest jumper, the person who throw the discus the farthest all outperform their competition. In organizations, however, performance is a more complicated concept. There are numerous definitions of organizational performance yet relatively little agreement about with which criteria against which organizational performance should be judged (Barney, 2002). To alleviate such difficulties, this study attempts to employ two related criteria to measure organizational performance. These criteria are accounting performance (sales growth, return on assets, Market share, stock price and overall financial performance) and non-financial performance (public image, quality of service and efficiency of operations).

The concept that combines the strengths of two organizations to achieve strategic and financial objectives that neither side can accomplish as easily or as affordably on its own is alluring. However, the reality is woeful: more than three-quarters of corporate combinations fail to obtain projected business results. In fact, most mergers/acquisitions produce higher than expected costs and lower than acceptable returns (Mark and Mirvis, 1998). Moreover, the literature of financial outcomes of merger/acquisitions was reported to be disappointing (Porter, 1987; Kitching, 1977; Business week, 1985; Mueller, 1977; Pritchett et al., 1997).

The question to be raised here is, why do such strategies often fare so badly? The failure and disappointment that can result from a merger/acquisition can be legitimately attributed to something like an unfavorable economic turn of events, or sometimes explained as the acquisition being a mismatch in the first place, with small odds for success. However, crucial factors that could explain the higher rate of failure in the merger/acquisition context is the way the merger/acquisition implementation process is managed as well as the high price paid for the target company (Mirvis and Marks, 1986; Marks and Mirvis, 1998; Schweiger and Weber, 1989). A study by the Boston Consulting Group found that, prior to the acquisition, fewer than 20% of companies had considered the steps necessary to integrate the acquisition into their organizations (Pritchett et al., 1997). Also, if the acquirer paid too much to buy a company or join a partner, the resulting debt load requires massive cost cutting that might prevent companies from investing in ways needed to make a combination pay off (Mars and Mirvis, 1998). In other words, if the acquirer offers price premiums higher than those made in mergers (Chatterjee, 1986), this would increase the pressure on the acquiring firms to extract high earnings from the acquisition. This pressure, in turn, leads to intrusions and strains that heighten the disparity between the two groups of executives in the acquired and the acquiring companies (Hambrick and Cannella, 1993).

It is common place to say that mergers/acquisitions often produce significant upheavals in the lives of organizational members. The disruption caused by combination-related stress and anxiety, culture shocks, tensions, job losses, relocation, or realignment, amongst other difficulties and concerns, obviously entails a number of human costs (Buono and Bowditch, 1989; Pritchett et al., 1997). Moreover, mergers/acquisitions not only disturb the lives of organizational members but inevitably destabilize the organization involved as well. The result is often a general decline in post-combination employee performance (Buono, Bowditch, and Nurick, 1982; Sinetar, 1981). This situation is referred to as "post-merger slump", characterized by losses in productivity, revenues, opportunities and human resources (Pritchett, 1985, p102). Yet most observers of the merger/acquisition process neglect the financial impact of such combination-related attitudes and behaviours (Buono and Bowditch, 1989).

This study, therefore, attempts to investigate the relationship between financial and non-financial performance as well as cultural differences and human resource issues (merger-related stresses and tensions). Moreover, this study investigates how the mechanism (procedural justice, communication, coping programmes and integration approach) by which such merger-related issues are managed impact on organizational performance.

6.6.2 RAMIFICATIONS OF THE REACTIONS OF THE PARTIES INVOLVED IN THE MERGER/ACQUISITION PROCESS

As a result of the uncertainty, ambiguity, tension, anxiety, and culture clashes that mergers/acquisitions can cause, employees involved frequently show a decline in job satisfaction, management trust, and employee commitment. The organization may suffer due to increased turnover and absenteeism, power struggles (among those managers who stay), poorer job-related attitudes and low performance (Buono and Bowditch, 1989; Pritchett et al., 1997; Marks and Mirvis, 1998). One of the major outcomes of mergers and acquisition is a fall in trust in the organization (Pritchett, 1985, 1987b). Employees who have low levels of trust to begin with become increasingly mistrustful of the new firm and its management (Buono and Bowditch, 1989). One reason for such attitudes may be due to shock often caused by the abrupt announcement of the merger. Personnel who previously were willing to give the company the benefit of the doubt now become skeptical, cynical. Generally, weakened trust levels can be created and nurtured by acquiring/merging top management through faulty and ineffective communication and insufficient candor. On other words, the greater shock and secrecy, the more the trust levels decline (Pritchett et al., 1997).

The other salient outcome of a merger/acquisition is the decrease in employee commitment to the new entity, especially those on the target company. The stress, trauma, anxiety and culture clash caused by mergers/acquisitions lead to a number of unproductive employees' behaviours and attitudes low employee commitment and mistrust that reduces the overall effectiveness of the combined company (Buono and Bowditch, 1989; Marks and Mirvis, 1998; Napier, 1989). Moreover, realization of synergies in merger/acquisition can be an arduous and difficult task, which to a large extent, depends on, amongst other things, the commitment of the acquired or merger partners in the top management team (Kitching, 1967; Porter, 1985; Shrivastava, 1986). Commitment is defined as the strength of one's identification with, and involvement in, a particular organization with a willingness to exert considerable effort on the behalf of the organization and a desire to maintain membership in it (Porter et al., 1974). Weber (1996) found cultural differences in merger/acquisition were negatively associated with the commitment of acquired top managers, and that this commitment explained their turnover. Accordingly, Weber (1996) hypothesized that the lower (greater) the commitment of the acquired top management team, the lower (greater) the effectiveness of the integration process, and the lower (greater) the financial performance of the merged organization.

Empirical studies have ascertained that, other things being equal, there is a relationship between employee attitudes and a number of work-related behaviours, such as turnover, absenteeism, tardiness, strikes, grievances and the quality of job performance (Mobley, 1982; Porter and steers, 1973; Smith, 1977). Research also indicated that nonproductive work-related behaviour has significant costs for organization. In other words, related research signifies that the financial costs of merger-related realities such as tardiness, absenteeism and turnover all serve to reduce output, which has a negative impact on the organisation. Furthermore, there are also hidden costs with respect to the declining morale, loyalty, commitment and trust of those who remain in the post-merger firm (Cascio, 1987; Mobley, 1982; Buono and Bowditch, 1989).

In addition to this, since the employees generally deal customers the way they are dealt with by management, if employees feel that top management does not care about them, they will tend to deal with customers in the same way. In other words, the unfair treatment of organizational members would spill over onto the customer. Thus, this would corrupt the image of such a company in the mind of customers, which then leads to customer dissatisfaction, in turn, reducing the company profits.

We can note from the previous discussion that a mergers/acquisitions often involves a number of human costs, ranging from the disruption of working relationships to the lowered perception of job satisfaction, security, employee commitment and organizational trust to job displacement, anxiety and stress. The hidden costs, which often associated with the process of a merger/acquisition, involve the following elements: (1) Absenteeism, turnover, related hiring and training expenses. (2) Time lost in inter-firm employee arguments, gossips, related infighting and office politicking. (3) Conscious and unconscious efforts to restrict personal performance because of the fear of layoff, changes in perceptions of promotion opportunities, lowered feelings of commitment, a sense of cultural betrayal and a decline in trust in the organization's leadership. (4) Customers become frustrated with new policies and procedures.

Therefore, it must be emphasized that merger partners or acquiring companies should be aware of the myriad of hidden costs associated with the merger/acquisitions process. Although such costs cannot be eliminated entirely, effective mechanisms to manage the process of merger/acquisition to reduce the dysfunctional impact of lower employee commitment and distrust in the combined firm's productivity and profitability have to be deployed. In other words, effective management of human resource and cultural factors through employing an effective an communication strategy, effective integration plan, effective coping programmes, and justice procedures and treatments during merger/acquisition processes would alleviate traumas, tensions and culture chock experienced by employees during the merger process. This would enhance employee commitment and organizational trust and this could reduce many of the hidden costs (e.g. turnover and gossip). This, in turn, would enhance the merging company's performance and, ultimately, its profitability.

6.7 PROPOSED THEORETICAL FRAMEWORK

The focus of the discussions above has involved both the traumas and stresses caused by organisational change and cultural clashes associated with merger/acquisition strategies. The previous chapters, also, discussed the mechanism by which such issues (stress, tension and cultural differences) managed effectively for the purpose of gaining and maintaining competitive advantage. Based on these discussions a proposed theoretical framework is developed as follows:

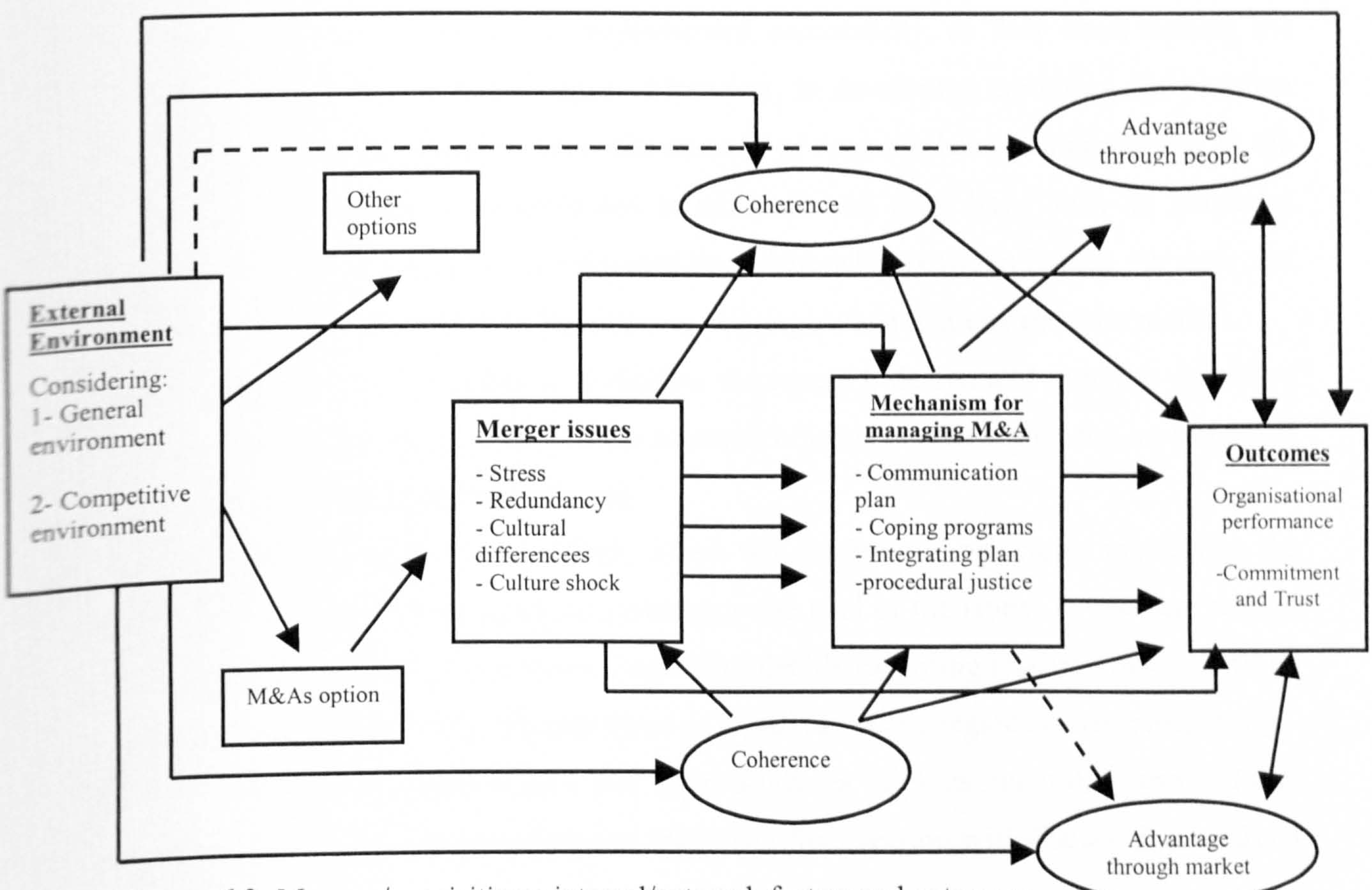


Figure 6.2: Mergers/acquisitions: internal/external factors and outcomes (Developed by the researcher)

This framework consists of three main parts:

I. Internal part: human and cultural components associated with mergers and acquisitions; the mechanism by which human and cultural components are managed; internal part of organisational coherence; and competitive advantage through people.
II. External part: general and competitive environments, external parts of organisational coherence, and competitive advantage through market positioning.
III. Merger/acquisition outcomes: organisational performance, employee commitment and organisational trust.

Chapter 7

7. RESEARCH DESIGN AND METHODOLOGY

7.1 INTRODUCTION

Mergers/acquisitions are considered to be an opportunity for shareholders to create wealth, Yet, it is estimated that more than half of the M/As prove to be financially unsuccessful. The value of M/As is constantly being fragmented or destroyed because the acquiring management do not fully understand the process by which mergers/acquisitions should be implemented successfully, so they often making the same mistakes over and over again. Moreover, in developing countries, the problem could be worse. In Saudi Arabia, the amount of research has been conducted in the context of mergers and acquisitions is minimal, and there have been no empirical studies undertaken that has investigated the relationship between human resource and culture components and the effectiveness of mergers/acquisitions implementation.

The purpose of this chapter is to discuss the research design and methods that have been used in this study to obtain the research objectives (answering the investigative question and testing the hypotheses).

This chapter contains five sections, which will outline the principles underlying the choice of the approaches used to investigate the goal of the study. In the first section the research objectives will be outlined. Full details regarding research design will be discussed in section two. Section three will provide detail regarding sampling design. Constructing the questionnaire and pilot study as well as reliability and validity testing will be the subject of section four. The final section will discuss data analysis methods.

7.2 RESEARCH OBJECTIVES AND QUESTIONS

The main goal of this study is to investigate the critical success factors for mergers and acquisitions in the context of Saudi Arabia, and to achieve the objective of the study through answering the following empirical questions:

1. What are the relationships between human resources and cultural components and the merging company's performance (success)?

2. What are the relationships between environmental forces and the merging company's performance?
3. What are the influencial factors in the success or failure of merger/acquisition strategies in the context of Saudi Arabia?
4. Could merger and acquisition strategies be appropriate for a Saudi company to gain and sustain competitive advantage? how?

7.3 PROPOSED THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESES

The purpose of the previous five chapters was to explore the full dimensions of the research problem in hand (human and cultural issues as well as environmental forces as success factors in the context of mergers/acquisitions). The information provided in the previous chapters enabled the researcher to design a proposed theoritical framework. The framework below expressed the main study objective and questions into a testable hypotheses. These hypotheses can be derived from the following proposed theoretical framework:

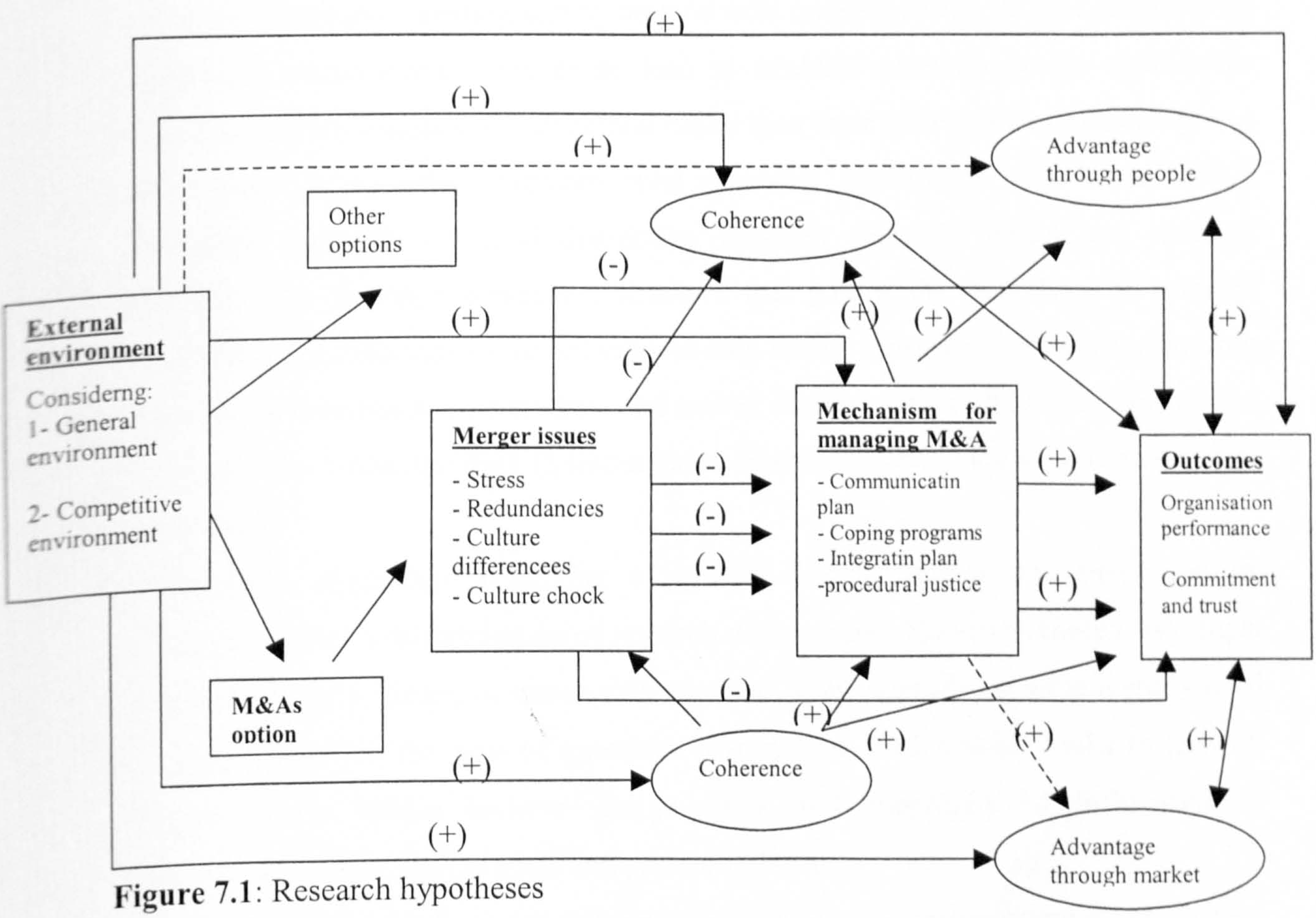


Figure 7.1: Research hypotheses

7.4 Study design

Once the research objectives have been determined, the hypotheses explained, and the variables defined, the researcher has to develop or construct a strategy that guides him (facilitates) in the process of testing the hypotheses. Research design fulfills this role, so what is the definition of research design?

Research design is the blueprint that enables investigators to answer the research questions and to test the research hypotheses through guiding him/her through the various stages of the research process (Frankfort-Nachmias and Nachmias, 1996). In other words, research design provides a framework for the collection and analysis of data for the purpose of testing research hypotheses.

It is appropriate to distinguished between research design and research methods. These two terms would seem to mean the same thing; so many research methods texts confuse research designing with methods. It is not unusual to see research design treated as a mode of data collection rather than as a logical structure of enquiry. If the distinction between these two terms is not clarified, a poor evaluation of design could occur. For example, equating survey designs with questionnaires, or case studies with participant observations. This could lead to evaluate research design against the strengths and weaknesses of the method rather than their ability to draw unambiguous conclusions or to select between rival plausible hypotheses (De Vaus, 2001). Therefore, there is a crucial distinction between research design and research methods. The former represents a structure that guides the execution of research methods and the analysis of the subsequent data for the purpose of answering research questions (experiment, case studies, and survey design), whilst the latter represents a technique for collecting data (questionnaire, interview, observation, and analysis of document).

Researchers often face a number of crucial design choices and these can be summarised into a categorisation of research design types. However, there is no single design strategy is always or necessarily superior; it all depends on what a study need to find out and on the type of questions (hypotheses) that a study seeks to answer. Moreover, the choice between design types will eventually be influenced by extraneous reasons such as costs and pressure of time.

Various writers on research use different classifications of design, some of which are:

I. Experimental and ex-post facto (Kerlinger, 1986).

II. Exploratory, descriptive and causal (Chisnall, 1986).

III. The experimental, cross-section, Quasi-experimental and preexperimintal designs (Frankfort-Nachmias and Nachmias, 1996).

IV. Descriptive and analytical designs (Oppenheim, 1992).

The classifications of research design for each writer provides an indication that research designing is a complex concept that cannot be captured in a straight forward manner. Therefore, research design could be described through at least seven different dimensions (Emory, 1976), they are as follows:

I. The degree of research problem crystallisation dimensions (a study could be exploratory or formalised).

II. The research strategy dimension (breadth and depth) (this may be a case or statistical study).

III. Environmental dimensions (field, laboratory setting and simulation).

IV. Time dimensions (research may be cross-sectional or longitudinal).

V. Method dimensions for data collections (study might be undertaken through observations or by using a questionnaire).

VI. The control over studied variable dimension (experimental and ex post facto).

VII. Research purpose dimensions (descriptive or causal).

The design of this study is built upon these seven dimensions so the following sections will describe these dimensions used and their relationship to this study.

7.4.1 DEGREE OF RESEARCH PROBLEM CRYSTALLISATION

The degree of structure and the immediate objective of the study represents the essence of the distinction between exploratory and formalised studies. The exploratory study is ill-structure and much less focused on predetermined objectives. The immediate purpose of this design was to develop some hypotheses for testing or some investigative questions for further research. In contrast, a formalised study has more structure and begins with hypotheses and precise procedures that are specified (Zikmund, 1989).

It the early stages of this study, research problems were neither clear nor crystallised in the mind of researcher. Therefore, the exploratory study was conducted at two stages:

Firstly, intensive investigation of literature relating to mergers and acquisitions was contected, especially in the context of developed countries (the UK and the US). This study involves reviewing the articles in academic and professional journals, books, and reports as well as the Internet with regards to mergers and acquisitions.

Secondly, a preliminary empirical study of mergers and acquisitions in the context of Saudi Arabia was conducted. This study involved interviews with merging companies' owners and managers as well as experts in mergers and acquisitions in the context of Saudi Arabia; in addition to this a related documentary review was conducted.

The first exploratory stage enabled the researcher to theoretically investigate the reasons for the increase in the rate of mergers and acquisitions failures, and also to study the success factors that could enable companies to realise competitive advantage in the context of mergers and acquisitions. during this stage, the researcher was able to develop a sharper and more insightful understanding of the topic under investigation. The main aim of the study was identified (human resource and culture as a success factor in mergers and acquisitions). The main concepts of the topic were determined including cultural differences, redundancies, effective communication, stress, coping programmes and organisational coherence.

The second stage enabled the researcher to explore the nature of the Saudi business environment and its culture with respect to mergers and acquisitions. He found that the number of merger and acquisition cases were limited within Saudi Arabia. However, the rate of mergers and acquisitions has increased dramatically since 1998. Globalisation, government spending reduction, Saudi economic slowdown could be attributed to the increase in the rate of mergers and acquisition within Saudi Arabia (based on related document investigation and interviews with managers). Concepts were identified during this stage such as government spending reduction, globalisation and nepotis. Moreover, the accessibility to the organisations under investigation was negotiated. Accordingly, the researcher changed the design of the study from case study to survey design. This is because access negotiations with gatekeepers rendered accessibility to organisations through case study design as being difficult and insecured.

The exploratory process helps the researcher to generate and refine ideas that relate to mergers and acquisitions. Concepts relating to the study were identified, and then the topic of the study, its main objectives and research questions were determined. Moreover, awareness of the current state of knowledge as to the subject, its limitations and how the topic under investigation fits in the wider context have been developed and recognised during this stage. The exploratory stage involves iteration process (backward and forward-defined and refined) untill full understanding of the topic, related concepts, main questions, research hypotheses and development of measures for these hypotheses have been sought. However, the empirical attributes or events that are represented by the concepts relating to the study cannot be observed directly. In other words, the conceptual-theoretical level that has been developed in the exploratory stage has to be transformed into an empirical observational level. For example, the concepts of nepotism, culture differences, effective communication and so on have to be translated into measurable definitions. Therefore, the researcher has to infer the empirical existence of the concept using operational definitions. Operational definitions describe a set of procedures a researcher can follow in order to establish the existence of phenomenon described by a concept (Frankfort-Nachmias and Nachmias, 1996). Therefore, operational definitions make it possible to confirm the existence of concepts that have no direct observable characteristics (e.g., culture).

Within this study, for example, the researcher has transformed the concepts of culture differences from the conceptual to the observational level. Although the concept cannot be directly observed, its empirical existence can be inferred. To establish the existence of the concept, the researcher conducted the following:

Firstly, he defined the components or the dimensions of the concept (exploratory stage).

Secondly. An operational definition of the concept was developed by constructing questionnaire items that serves as a measure of the concept dimensions. Questionnaire items, thus, transformed the conceptual definition of the concept into behaviours that could be directly observed (measurement stage).

Thirdly, the questionnaires were administered to the respondents (data collection stage)

Fourthly, from the responses to the questionnaires, the researcher is able to infer the extent to which the dimensions of the cultural differences actually exist at an empirical level (analysis and discussion stage).

The progression of this study passed the two stages in which one aims to accomplish specific goals. The first stage is exploration whilst the second is a more formalised stage (Emory, 1980). The main purpose of the exploration study is to clarify the research topic, identify the study aim, determine related concepts, raise questions for further investigation and to develop propositions and hypotheses for testing. This study has achieved in the previous chapter. Answering and testing research questions and hypotheses is the purpose of this formalised study (measurement, data collection, and analysis and conclusion stages).

7.4.2 THE RESEARCH STRATEGY DIMENSIONS

The debate as to quantitative (statistical study) and qualitative (case studies) strategies in social science is controversial. Quantitative approaches are typically associated with the survey design-questionnaire, whilst qualitative approach tends to be associated with case study designs (observations and in-depth interviews). There has always been an awareness of the differences between the nature of quantitative (survey) and qualitative (observation) research strategies. However, the focus tended to be on the capacity of the survey to provide a framework in which the procedures associated with scientific method could be followed and the inappropriateness of participant observations in this regard. Consequently, qualitative approaches such as observations tended to be regarded as relatively marginal in the context of social science research. This is because of its inability to conform to the principles (canons) of scientific methods (Goode and Hatt, 1952; Phillips, 1966; Nachmias and Nachmias, 1996). Even though writers often recognised the potential strengths of the qualitative approach, the tendency was to view it somewhat as a way of developing hunches and hypotheses to be subsequently supported by the more rigorous survey or experiment. In other words, many social scientists prefer to think of the qualitative approach as being useful at a certain stages in the research process rather than being an approach that yield a finished piece of research (Blalock, 1970)..

In general, the distinction between quantititive and qualitative research can be outlined as follows (Bryman, 2001):

I. Quantitative research can be construed as a research strategy that emphasises quantification in the collection and analysis of data, whilst qualitative research can be construed as a research strategy that usually emphasises words rather than quantification in the collection and analysis of data.

II. Quantitative research entails a deductive approach to the relationship between research and theory, in which emphasis is placed on the testing of theory, whilst qualitative research predominantly emphasises an inductive approach to the relationship between research and theory, in which the emphasis is placed on the generation of theory.

III. Quantitative has incorporated the practices and norms of natural scientific models in conducting the research, whilst qualitative research has rejected the practice and norms of natural scientific models and prefers the ways in which individuals interpret their social world.

IV. Quantitative research also takes the view of social reality as an external, objective reality, whilst qualitative embodies a view of social reality as a constantly shifting emergent property of an individuals' creation.

Based on the discussion above, we can see that the two research strategies (quantitative and qualitative) requires different that attracts different solutions, therefore, demanding different methodologies. The positivist researcher searches for causes through quantitative methods such as questionnaires and structured interviews that produce data amenable to statistical analysis. The interpretivist, in contrast, seeks understanding through qualitative methods such as in-depth interviews, participant observation and others that yield understanding, (on a personal level) on the motives and beliefs behind people's actions (Taylor and Bogdan, 1984).

In short, one can say that there is no overriding research strategy that could be appropriate for all situations and conditions. Therefore, we cannot ensure that the quantitative approach always good or bad, but rather that quantitative is preferable for some problems or under some conditions, and not others. Furthermore, costs and the pressure of time will eventually influence the choice between these two strategies.

Although there are critical differences between quantitative and qualitative as a research strategy in social science and each has its own strengths and weaknesses, it is essential not to minimise the importance of similarities between them or triangulation between these two strategies. There are number of studies that combined the two approaches as a methodology (Woods, 1979; Ball, 1981; Ford and et al, 1982). Moreover, the studies of amalgamated quantitative and qualitative styles of research are rarely give equal or even nearly enough equal weighting. The majority of researchers rely primarily on a method associated with one of the two strategies, and support their findings with a method associated with the other strategy (Fuller, 1984).

The position of this study with regard to this issue is to employ quantitative as primary strategy for this research supported by qualitative methods. The rationale behind this position is the followings:

I. The nature of the study questions used is correctional and causal such that the quantitative approach would be the most appropriate way to test them.
II. The research topic and questions are not clearly crystallised in the mind of the researcher at the early stage of this research process. Therefore, the qualitative approach is employed at the beginning of the research at the exploratory stage. At this stage the researcher is able to develop and generate related hunches and hypotheses that would be tested through quantitative methods.
III. The main limitation inherent in quantitative research is that structured questionnaires may provide little opportunity for respondents to articulate their matters of interests to the researcher so that he personally can conceptualise and understand. This could be minimised through using qualitative approach by in-depth interviewing a sample of executives who answered the questionnaire.
IV. Qualitative methods could facilitate the interpretation of relationships between variables that were tested by quantitative research.
V. the validity of the study could be enhanced, (as the finding of quantitative research will be supplemented) with qualitative evidence as number of in-depth interviews have been conducted with a number of executives and managers.

7.4.3 RESEARCH SETTING DIMENSION

This dimension implies that research design distinguishes between those studies that have been conducted under environmental conditions and those that have been undertaken in artificial or simulated conditions. Accordingly, research design could be classified into two broad categories (Emory, 1976): field studies and laboratory studies.

This study has been conducted in the natural organisational setting (actual business context). Therefore, we would consider this research as being a field study.

7.4.4 TIME DIMENSION

Time dimension distinguishes longitudinal design from cross-sectional design. The former is the design that entails measuring a phenomenon over a period of time; this can be done through collecting related data from the same sample at least at two points in time. The main purpose of longitudinal design is tracking phenomena change over time and establishing the sequence in which events take place, and then established over time causality. There are a number of longitudinal types: panel studies and trend studies. The latter entails the collection of information from comparable samples (but not from the same sample), whilst the former involves collecting data from the same sample over time (De Vaus, 2001). Cross-sectional design, in contrast, is the design that involves collecting related data at and concerning only with one point of time, and all analysis relies on differences in the sample at that point in time (De Vaus, 2001). Cross-sectional design can be ideal for descriptive analysis. and can provide valuable information regarding causal processes and testing causal model through using statistical controls correctly (De Vaus, 2001).

The design of this study, with respect to time dimensions, has used cross-sectional input as data collection for this study at a single point of time. There are a number of reasons for this choice, as follows:

I. The researcher has limited time in which to finish the study. Cross-sectional design would enable the researcher to obtain results relatively quickly. The data are collected at one point of time and there is no need to wait for various follow-up stages before analysing the data as in the case of panel studies.

II. The researcher has limited funds in order to finish the study. Cross-sectional designs are more cost effective than comparable longitudinal designs. This is because these designs do not entail the cost of repeated data collections, tracking respondents or treatment interventions. Therefore, cross-sectional designs would enable the researcher to complete the study within the available funds and resources.

III. Cross-sectional designs do not have an associated time dimension. Thus, they do not suffer from many other problems that would threaten the internal validity of the study that would have been encountered by using longitudinal designs such as history, maturation, instrument decay, artificial regression, mortality (dropout problems), and testing effects (Frankfort-Nachmias and Nachmias, 1996).

IV. Cross-sectional designs have strong external validity, because they have been more successful than other designs (longitudinal) in achieving representative samples, as long as the sample is well selected. Therefore, the findings from such designs can be generalised to a wider population from which the samples have been drawn. Accordingly, generalising findings of the study could be obtained by adapting cross-sectional designs. Generalising findings would not be successfully achieved by using longitudinal designs because of the problems of dropouts. These dropouts would have introduced sample biases, so representative sample can be progressively undermined. This would have negatively affected the external validity of the study (generalising) (De Vaus, 2001).

V. Ethical issues that the researcher could have faced during data collection, especially in Saudi Arabia, (confidentiality, privacy and avoidance of harming participants) would have been minimised through adopting cross-sectional designs, since no tracking of participants is required for this design. In addition to this there is no need to keep lists of names or to match names at all to responses, it is much easier to ensure anonymity. Moreover, because the data collection is a "one-off", such designs can be less intrusive and less impositing on a person's privacy. Furthermore, since cross-sectional designs rely on existing variations, rather than introducing interventions, such designs can avoid many of the potential ethical problems that may harm participants as a result of the intervention.

The majority of Saudi companies are very conservative in providing any information as to their processes and their employees. Accordingly, longitudinal research could be an inappropriate design to tease out information from such conservative companies because of the ethical concerns associated which make it impossible to be resolved with longitudinal designs. Therefore, from a researcher's point of view, cross-sectional research would be the the most appropriate used in the Saudi business environment because of the ethical considerations.

However, there are a number of methodological and practical issues that would impair the internal validity of cross-sectional designs, since these designs differ from longitudinal designs in that they do not have a time dimension. Consequently, difficulties are faced in identifying the time sequence of events. Because of this, they face the problem of identifying causal direction. Furthermore, since cross-sectional designs rely on existing differences in selected samples rather than random allocation, any apparent effect of the independent variable might in fact be due to uncontrolled differences between the groups (Blalock, 1964; De Vaus, 2001; Frankfort-Nachmias and Nachmias, 1996). Awareness of these issues at an early stage of the research (with the aid of supervisoin) has enable the researcher to minimise the shortcomings of this design. There are two ways in which the study has solved the problem of confounding variables (rival explanations of the change of dependent variables other than the intended independent variables) and these are:

I. Statistical controls havd been employed to tackle the problem of confounding variables at the data analysis stage by using appropriate advance statistical techniques such as logistic regression analysis and factor analysis and so on. The solution has been achieved by statistically removing insignificant variables until the statistically significant model has been reached (detailed in chapter 9). Moreover, cross-sectional data can establish that causal relationships do not exist. Whilst it is true that the correlation between variables do not establish causation, this correlation is prerequisite for establishing causality. If there is no correlation we can be confident that there is not a causal relationship (Rosenberg, 1968).

II. This study has been designed to involve a comparative group (control group). The study is concerned with merging companies as the experiment group and non-merging companies as the control group.

With regards to the problem of establishing causality and its direction. Researchers cannot establish time order in a cross-sectional design through performing statistical analysis. This study has established the time sequence on the basis of theoretical and logical considerations. It is, for example, logical to say that managing human resources effectively would improve a company's performance, but not the reverse. Also, theoretical considerations have been employed to establish the time order, as the study has used the conceptual framework used by Pettigrew and Whipp (1991) prior to data collection.

7.4.5 THE CONTROL OVER STUDIED VARIABLES DIMENSION

According to this dimension we can distinguish between experimental designs, survey (ex post facto) designs and case study designs.

Experimental design consists of two groups: an experiment group and a control group. These two groups are equivalent except that the experimental group is exposed to the independent variable and the control group is not. This design is one of the strongest logical designs for inferring causal relations. This is because it allows for pre-test, post-test and control group-experiment group comparisons; it permits the manipulation of independent variables that is the determinant of the time sequence. Moreover, control groups and randomisation enables the design to provide the maximum control over the sources of internal validity (intrinsic and extrinsic factors). However, the external validity of the design is weak, so it does not allow the researcher to generalise the findings to a non-tested population since the research is conducted under artificial settings, and the characteristics of sample subjects often do not reflect the characteristics of the population from which the sample has been drawn. Moreover there are practical and ethical problems associated with the experiment, which make it an inappropriate design for social studies.

Case study designs involve detailed investigation of a single or more cases at a point of time (Bryman, 2001). Case study designs are not suitable for experimental manipulation and do not allow researchers to randomly assign cases to an experimental and control groups. Moreover, these designs often do not include control group at all. Furthermore, case study designs, respondents are not randomly selected from a large representative population, nor is multivariate analysis used as a substitute for control groups. Therefore, these designs are the weakest research designs since most of the sources of internal and external validity are not controlled (Nachmias and Nachmias, 1996). Most case studies consider using qualitative research since some writers treat qualitative and case studies research as synonyms (Bryman, 2001). This design has the advantage because detailed information can be obtained on the study variables and their inter-relationships. a case study Also provides a way for understanding participant' perspectives (their thoughts, intentions, and feelings). Thus, a case study is an appropriate way to tease out the meaning that is held within the minds of the participants with regards to the research variables used (Maxwell, 1996). However, there are number of problems associated with case study designs that limit the value of such design methods. Firstly, gaining access to companies that are willing to be involved in the case study would be difficult, especially in Saudi Arabia since Saudi companies are often very conservative in providing permission to conduct research about their companies. Secondly, according to Nachmias and Nachmias (1996), case studies are the weakest research designs since most of the sources of internal validity are not controlled, so the risk of error in drawing causal inferences from case study designs is extremely high. Furthermore, it is a fatal flaw to generalise the findings from one or a few case studies, since cases are not "sample units" and should not be chosen for this reason (Gummesson, 1991; Yen, 1994). Finally, conducting effective case studies entail much time and cost, which may be available to the researcher to a limited extent.

Survey (ex post facto) designs are most common in social science and business research and is conventionally associated with questionnaires and interviews (Emory, 1980). Survey designs are not a source of data, but rather a particular framework within which data are collected, so "survey" is best conceptualised as a research design and not a research method. In other words, questionnaires and interviews are methods of data collection, which are popular in the context of survey investigations. The survey, therefore, provides a particular kind of structure (framework) within which these methods of data collection are employed (Bryman, 2001). There is no clear definition of the survey design that shows its uniqueness.

However, Bryman (2001) provides the following definition: survey research entails the collection of data on a number of units (people, organisation, industries,..) and usually at a single juncture in time, with a view to collecting, systematically, a body of quantifiable data in respect to a number of variables which are then examined to discern a pattern of association. March (1982), criticises the tendency to associate survey research solely with questionnaires and interviews. This was because a design such as the survey can incorporate investigation using other methods of data collection, such as structural observations or research based by using existing statistics. Its essential characteristics are that the investigator has no control over the variables under investigation. This is because the survey is designed in such a way that makes it difficult for investigators to control, or manipulate, the variables under investigation.

The design of this study with regard to this dimension has been decided as being a survey-based design. This choice is based on the following rationales: Firstly, this study tests more variables that other designs (case studies, experiments) might not be able to cover. Secondly, if the sample is carefully selected, this will enable the researcher to extrapolate the research findings to the wider population from which the sample has been drawn with a high degree of confidence. Since the population of this study is limited (merging companies in Saudi Arabia) the sample aims to involve the whole population. This will enhance the external validity (generalisation) of this study. Thirdly, this design is more convenient in terms of accessibility, time and cost. Finally, data that are collected by such a design can be easily analysed quantitatively than those collected by using a qualitative design (case study). However, survey designs face serious problems with regards to causality. This can be attributed to two reasons: Firstly, survey researchers do not manipulate those variables that might be considered independent. This is either due to social, ethical and practical reasons, or such variables could simply be not amenable to manipulation. Secondly, the survey may involve the collection of data using variables at a single juncture (as it is this study). Since notions of causality are taken to imply that a cause precedes an effect, survey design is faced with causality problem, because data relating to their variables of interest are collected simultaneously.

Such problems have been mitigated in this research through using a control group (non-merging companies) for more detail see the previous section and sampling section.

7.4.6 METHODS DIMENSION USED FOR DATA COLLECTION

This dimension distinguishes between observational/in-depth interview and questionnaire/structured interview.

This study has been designed to use the questionnaire as the main source of data collection and in-depth interviews, as well as, documentary analysis as complementary sources for data collection.

The rationale behind the choice of such methods for data collection designs for this study can be clarified by going through the theoretical and practical advantages and disadvantages of each method.

7.4.6.1 QUESTIONNAIRE

This term, in general, involves all techniques of data collection in which each respondent is asked to respond to the same set of questions in a predetermined order. According to this definition, questionnaire techniques involve postal and self-administered questionnaire as well as structured interviews and telephone questionnaire (Saunders and et al, 2000). The questionnaire, as a data collection instrument, has several advantages. These are as follow (Oppenhiem, 1992; Robson, 1993; Bryman, 2001; Emory, 1980):

Firstly, questionnaire permits anonymity that enhances the ethical consideration of the study. Secondly, it allows a respondent a considerable amount of time to consider the questions before responding without bias or distortion from the researcher as it is in an interview. Thirdly, questionnaire is usually faster since it can be distributed to many people simultaneously, this will save time for the researcher. Fourthly, it is less expensive, easy to design, and self-administering. Fifthly, it provides a greater uniformity across a statistician environment measurement and standard instructions are given to all respondents since each respondent responds to exactly the same questions. Finally, the data itself can be better analysed and interpreted than the data received from oral responses. However, there are inherent disadvantages of using questionnaire as data collection instrument. Firstly, the misunderstanding of the questions due to unclear instructions or the questions themselves is ambiguous. Secondly, the fundamental drawback of self-administered questionnaire is the low response rate, especially in postal questionnaires. Finally, a structured questionnaire does not involve research in a natural setting. This may imply that there is little scope for respondents to articulate the matters of interest as he/she personally conceptualises and understands (Gill and Johnson, 1991).

However, careful presentation of the questionnaire and its appearance would overcome the problem of lack of clarity and low rate of response (more detail regarding increasing response rates deferred to other sections in this chapter). The problems associated with structured questionnaires (little opportunity for respondent to articulate..) have been minimised using in-depth interviews with a sample of executives, as well as, documentary analysis as supplementary sources of data collection. The researcher has used the "drop-off" method (personally distributed questionnaire) as well as the mail technique to administer the questionnaires. However, the drop-off technique was used more often. This is because drop-offs have a higher response rate than mailed surveys (Lovelock and et al, 1976). Also, this technique provides greater control over sample designing (Emory, 1976). Moreover, such techniques would ensure that the questionnaire is taken seriously and increase the response rate, which is important for the successful completion of the study. However, mail techniques have been used as a way of distributing the questionnaires. This is because the subjects of the study are widely dispersed over the Kingdom of Saudi Arabia, so the mail technique represent an efficient way to administer the questionnaires to the majority over a short period of time. A questionnaire technique always faces the problem of a low response rate, especially, when the mail survey is used and would affect the validity of the study. A number of researchers investigated the best way to motivate and gain the co-operation of the respondents and came up with a variety of techniques and tactics for the best ways to approach the respondents. The following tactics have been used in the construction of our questionnaire to increase the response rate, as recommended by Oppenheim (1992) and Emory (1985) and Nachmias and Nachmias (1996):

I. Covering letter. A letter has been attached to questionnaire that concisely clarifies the purpose of the study, and the reason of choosing the particular company. Also, in the letter the researcher politely tried to convince of the respondents that the success of the study depended greatly on answering all the questions accurately. Moreover, the researcher ensured confidentiality by promising to the respondents that the information given by the respondent will be used only for the purpose of the study and no one will have access to the information but the researcher (see appendix A1).

II. Sponsorship. The researcher obtained a letter from his sponsor (King Saud University) that encourages respondents to co-operate with the researcher. The majority of the companies involved in the study have not allowed the researcher to access the companies without such a letter (see appendix A2).

III. Drop-off technique. The researcher and some of his relatives have distributed the majority of the questionnaires personally, and collected them too.

IV. Questionnaire appearance. The researcher tried hard to make the questionnaire attractive to the respondents and easy to read.

V. Anonymity. The researcher ensured the anonymity of respondents, as there is no mention of the name of the respondent.

VI. Envelope. The researcher used high quality envelopes to enclose the questionnaires in it for each company, and also attached reply-paid envelopes for respondent to send back their questionnaires. This envelope was stamped and the name of researcher and his address were written on it.

VII. Rapport and follow-up. The researcher always asks the name and telephone number of someone in each company who was given a questionnaire personally. After this a follow-up telephone call was conducted. The researcher always tries to urge the respondents to answer the questionnaire within the limited time (one week to two weeks). Follow-up telephone calls helped to increase the response rate. However, the price was high cost and a lot of effort was used in this process.

Using the above techniques has negated the low rate of response that is normally associated with questionnaires in general and mail surveys in particular.

7.4.6.2 IN-DEPTH INTERVIEWS

these techniques imply repeated face-to-face encounters between interviewees and the interviewer and are directed toward understanding the interviewees' perspective on their lives, experiences, or situations as expressed in their words (Taylor and Bogdan, 1984). The purpose of the interview is to develop ideas and research hypotheses rather than to gather facts and statistics. They are concerned with trying to understand how ordinary people think and feel about the topics of concern to the researcher (Oppenheim, 1992). This instrument has been used as exploratory, as well as, complementary sources of data collection over the different stages of this study. Its advantages are as follows:

I. this study is concerned with answering a "how" inquiry. this requires in-depth information regarding feelings attitudes and thoughts; in-depth interviews could be the best in which tool to provide this information (gummesson, 1991).
II. personal interviews could enable the researcher to uncover new ideas and to open up new dimensions regarding the problem under investigation and provides a vivid, accurate information as to the variables to be searched (Burgess, 1982).
III. interviews could provide an opportunity for the researcher to gain a greater insight into cultural issues with regard to employees' values and beliefs. this might serve the purpose of the study as it could explain how cultural differences affect the employees' reactions (Easterby, M. et al, 1991).
IV. interviews would give the interviewer an opportunity to tease out valuable information about the informants bu studying body language (facial expressions, eye contact, etc.).
V. to understand "why" persons act the way they do, we need to understand the meaning and significance they provide by their actions. in-depth interviews could provide the appropriate way of obtaining these meanings (walker, 1985). this will help the researcher to conduct the study successfully, as the research concerns the employee's reactions to mergers and acquisitions.
VI. an interview provides a flexible and adaptable way of expressing pertinent data. an interview offers the possibility of modifying one's line of inquiry,

following up appropriate responses and investigating underlying motives (Robson, 1993).

However, there are number of drawbacks that might limit the advantages of the in-depth interview:

I. Recruiting people for in-depth interviews often meets with difficulties such as shift work, busy people being unable to spare time, reservations about being probed and so on, which might all lead to biases within the sample (Oppenhiem, 1992).

II. An effective in-depth interview requires abilities and skills as well as experience, which may not be available in most graduate students. For example the interviewer requires the ability to maintain the informants' motivation during the interview.

III. Interviews are time-consuming. All interviews require careful preparation, (which takes time), arrangements to visit, securing necessary permission; confirming arrangements and rescheduling appointments. Also notes need to be written up; (tapes require whole or partial transcription) and a one hour tape takes ten hours to transcribe fully (Robson, 1993).

IV. Bias represents a serious problem to qualitative research and specifically in interviews. This may occur when an interviewer directs the informant's response to reflect their own ideas and opinions rather than the interviewees' opinions.

Time management and budgeting are crucial skills required to overcome the time problem associated with in-depth interviews. Moreover, a non-directive approach (one-way communication process), hidden agenda, and maintaining rapport at the right level, as well as, patience required by the interviewer could alleviate the bias problem of the interview.

7.4.6.3 DOCUMENTATION

they are written whether it is a book, newspaper, magazine, notice or letter. Also, the term documents are sometimes extended to involve non-written documents such as films, TV programmes and pictures. This type of research is unobtrusive evidence that impies minimising or eliminating the researcher's effects on the people and settings under study (non-reactive methods). This instrument has been used as an exploratory task duing the early stages as well as supporting the source of data collection in this study. Its advantages are as follows:

I. Documentation analysis provides an opportunity for the researcher to trace performance and behaviour of the acquired firm for a longer time duration. This may help the researcher to explain whether the changes that were brought about by the acquisition were favourable.

II. Documentation may provide accurate evidence with no bias, since they are not created for the case study.

III. Documentation could enable the researcher to verify the correct spellings and titles or names of an organisation that may have been mentioned in an interview. Also, this source could enable the researcher to review the documents repeatedly, since they are stable and available (Yin, 1994).

IV. Documents can provide an opportunity for cross-validation of other methods, either in support or disconfirmation of them. Moreover, they encourage ingenuity and creativity on the part of the researcher (Robson, 1993).

However, there are some problems associated with using documents as a source of data collection. Ironically, the strength of documentation as a method is its weakness:

I. It is difficult to specify the appropriate documents that may relate to research, since the documents were not created for the study.

II. The documents do not interact with people and fail to reveal how people perceive and experience their world (Taylor and Bogdan, 1984).

III. The companies may deliberately block access to the relevant documents. This could lead to bias in the selection, as the collection of data become incomplete.

IV. Documents could be deliberately edited before being printed in their final form. In other words, they must be carefully compiled and used and should not be accepted as literal recordings of events that have taken place. That is to say, there is a concern with regard to the validity of a document (Yin, 1994).

V. Documents can seldom stand alone as a sole source of data. For a case study, the most important use of documents is to corroborate and augment evidence from other sources (Taylor and Bogdan, 1984).

Planning in advance and systematic searches for relevant documents is essential to documentary data collection. For instance, during field visits, researchers should allot time for using local libraries and other reference centres. This could minimise the disadvantages and maximise the advantages of using documents as a source of data.

The design of the study can be summarised in the following table:

Table 7.1: The study design summary

Dimensions	Alternatives	This study
Degree of the problem crystallisation	Exploratory or Formalised	Exploratory in the early stage and formalised in the second stage
Research strategy	Quantitative or qualitative	Quantitative and qualitative are mainly complementary
Research environment	Field setting, laboratory and simulation	Field setting
Time	Cross-sectional and longitudinal	Cross-sectional
Control over the variables	Experiment, Case study and Survey (ex post facto)	Survey
Research purpose	Descriptive or Causal	Causal and descriptive
Research methods	Observational, questionnaire, in-depth interview or documentary	Questionnaire as primarily source and in-depth interview and document analysis as complementary
Distribution mode	Mail, drop-off or telephone	Drop-off as main mode, and mail supportive mode

7.5 SAMPLING DESIGN

Researchers collect data in order to test hypotheses and to provide empirical support for explanations and predictions. When we collect and analyse data from every possible case or group member, this is termed a census. However, most of the time selecting all members of the population for data collection could be impossible due to the restrictions of time, cost and access, as well as, unavailability of the sampling frame. Sampling techniques provide a set of methods that enables researchers to collect related data from sub-groups rather than all possible cases of the population.

Population is the entire set of relevant data. Sample is a subset of or part of the population. Sampling unit is a single member of a sample of the population. A sampling unit is not necessary an individual, it can be an event, university, a company or a city. The prime goal of the survey design is to generalise the findings that are generated from a sample of the whole population from which the sample has been drawn. The essential requirement for generalising is the representativeness of the sample to the population from which it has been drawn. The representative can be achieved through the process of randomisation. Randomisation can be obtained by using the probability sampling (simple random, stratified random, systematic and cluster sampling). Probability samples ensure that the chance of each case being selected from the population is known and usually equal for all cases (Suanders and et al, 2000; Nachmias and Nachmias, 1996; Emory, 1985). The probability samples have all been based on the assumption that the sample will be statistically chosen at random. However, within business research this is often not possible and the sample must be selected in some other way. Non-probability sampling provides a range of alternative techniques based on the researcher's own subjective judgement (Quota, purposive, snowball, and convenience sample). These techniques are the most practical during the exploratory stage and in pilot studies, as well as, when selecting the interviewees (Suanders and et al, 2000; Emory, 1985).

7.5.1 THE PROCESS OF SAMPLING DESIGN FOR THE STUDY

The process can be divided into:

I. Population of the study
II. Unit of analysis (sampling unit)
III. Sampling frame
IV. Assigning companies to the control group
V. Sample size

Each of these stages will be considered in turn as follows:

7.5.1.1 POPULATION OF THE STUDY

The population of interest is usually derived from the research objectives. Since the study is aimed at finding out how human resource and cultural issues are a source of success or failure in mergers and acquisition in the context of Saudi Arabia, all merging/acquiring companies that operate in Saudi Arabia are consider to be the population of the study.

The number of mergers that have occurred in Saudi Arabia is limited (about 72 cases, ministry of trade, 2001, chamber of Riyadh for trade and industries, 2000). Henry (1990) argues that when there id a population of less than 50 cases the researchers should collect data on the entire population due to the influence of a single extreme case on subsequent statistical analysis is more pronounced than in larger samples. Therefore, the study sample consists of all the companies that have been involved in merger or acquisition activities in Saudi Arabia. In other words, the sample of this study is the whole population.

Emory (1976) argued that many studies couldn't be carried out with experimental designs in the context of business research for ethical and practical reasons. Thus, survey (ex post facto) is the best available design that can be used. Instead of manipulating the exposure to the independent variable, researchers must uncover comparative groups who have and have not been exposed to the causal factor under study.

The size of the study sample is relatively small, for the purpose of increasing the internal and external validity of the study findings. Therefore, this study has been designed to consist of two groups: one group represents the merging companies in Saudi Arabia (experiment group or main group), and the other group consists of similar non-merging companies (control group or comparative group).

7.5.1.2 UNIT OF ANALYSIS

A single member of a sampling population (customer, student, employee, executive, event, company, university, and so on) is referred to as a unit of analysis (sampling unit) (Nachmias and Nachmias, 1996).

The study purpose and hypotheses (see the objectives of the study and its hypotheses) has two levels of sampling units (units of analysis), which are:

Firstly, company level, which is represented by its owner or executives. One questionnaire that is filled in by either its owner or one of its executives represents one company.

Middle management level, this is represented by middle managers (Departments managers, branches managers and so on). Each company (merging and non-merging) has been administered provided with a number of questionnaires according to its size.

7.5.1.3 SAMPLING FRAME

A sampling frame is a complete list of all the cases in the population from which the sample will be drawn. The completeness of the sampling frame is very important. Incomplete or inaccurate lists implies that some cases will have been excluded and so it will be impossible for every case in the population to have a chance of selection. Consequently the sample may not be representative of the total population (Saunders et al, 2000).

In the case where no suitable list exists, the researcher has to compile his own sampling frame. It is important to ensure that the sampling frame is unbiased, current and accurate (Emory, 1985).

A list of the merging companies has been obtained from Saudi Arabia Ministry of Trade (2001). Some merging companies have not been involved in the list because such companies have not registered with the Ministry of Trade (especially small and family firms). Thus, complementary lists have been obtained from the Saudi Chambers of Commerce that spread over the main cities of Saudi Arabia (Jeddah, Riyadh, Mecca, Alahssa, Dammam and etc.) and from experts in merger activities such as accounting offices. Therefore, complete lists of merging companies have been compiled. The information contained in the list is: the name of merging companies before and after, the date of the merger, the type of merging company, telephone number and their addresses.

The sampling frame of non-merging companies has been obtained from Riyadh Chamber of Commerce. Three CDs have been bought from Riyadh chamber of commerce, which represent the sampling frame of non-merging companies. The first CD involves all the companies that operate in the central region of the Kingdom (small, medium, and large). The second CD involves all companies that operate in the eastern region of the Kingdom. The third CD involves all companies that operate in the western region. These CDs provide important background and secondary data on Saudi companies. These data are: owners and shareholders, directors, activities, brief history and addresses (Location, P.O. Box No, and Tel No.). Moreover, these CDs are designed in Such a way that any researcher can easily find any company by using the company's name, Tel No, owner, or director.

7.5.1.4 ASSIGNING COMPANIES TO THE CONTROL GROUP

Randomisation is the basic method of allocation by which the equivalence between experiment and control groups can be determined (Emory, 1976). However, the experiment group in this study (merging companies in Saudi Arabia) has been identified in advance (the whole population), which makes it inappropriate to use randomisation in the allocation to the experiment and control groups. Therefore the most appropriate method of assignment for this case could be "matching". Matching method controls for variables that are known to the investigator prior to the research operation. Thus, matching is a way of equating the experiment and control groups on extrinsic factors (selection factors) that relate to the research hypotheses. Two types of matching can be used: precision (pairwise) and frequency distribution matching. Precision matching requires that each case in the experiment group, there is another case with identical characteristics has to be selected for the control group.

The main drawback of this method is that it is impractical and difficult in the context of business research especially, when the number of factors needing to be matched are large. Also, by using this method, researchers often lose about 90% of the cases for which an appropriate match cannot be found (Nachmias and Nachmias, 1996). The alternative and more efficient method of matching is frequency distribution. Within this method, experimental and control groups are made similar for each of the relevant variables separately rather than in combination. Thus, instead of a one-by-one matching, the two groups are matched by their central characteristics. Although frequency distribution is somewhat less precise, it is much easier to execute than precision matching and enables the investigators to control several factors without having to discard a large number of cases (Nacmias and Nachmias, 1996; Emory, 1985). Therefore, frequency distribution matching has been used in this study to make the control group similar to the experimental group. The process of matching has been conducted as follows:

Firstly, the merging companies (experimental group) have been determined in advance (the whole population). Secondly, for each merging company in the experimental group, similar non-merging companies have been selected to be included in the control group. The matching factors that have been used for the selection are industry, legal form, location and company size.

7.5.1.5 SAMPLE SIZE

Sample size often entails a compromise between theoretical requirements (such as interval estimate, degree of confidence, population variance, and relative size of population) and practical limitations such as time and cost. Common sense suggests that a larger sample will provide a greater chance of becoming a representative sample than a smaller one. However, it has been noted that a law of diminishing returns seeps into the sampling consideration. In other words, once a sample reaches a particular size, there is a tendency for a larger sample to yield small increments in accuracy, due to cost and time constraints (Oppenhiem, 1992; Nachmias and Nachmias, 1996; Bryman, 2001).

The final sample size is almost always a matter of judgement rather than calculation (Hoinville and et al, 1985). The judgement would be based on the research objectives, population size,and the type of statistical analysis intending to be conducted (Saunders, and et al, 2000). The Economist's (1997) advice to use a minimum number of 30 cases for statistical analysis provides a useful rule of thumb for the smallest in each category within the overall sample. Where the population in the category is less than 30, and the researcher wishes to undertake his analysis at this level of detail, he should normally collect data from all cases in that category.

In this study, the number of mergers/acquisitions in the context of Saudi Arabia is limited to approximately 73 cases. Therefore, the study sample of the experiment group (the main group) has involved all the population. The size of the comparative (control) group is almost the same size as that of the main (experimental) group.

The researcher distributed approximately 400 questionnaires for the merging companies (top and middle managers), and about the same number (400 questionnaires) have been given to non-merging companies (top and middle managers).

7.6 QUESTIONNAIRE CONSTRUCTION AND ITS DESIGN PROCESS

The term "questionnaire" has been defined in different ways by different researchers. In this study, we used the term for self-administered and postal questionnaires. This questionnaire is designed to collect relevant data that could enable the researcher to achieve the purpose of the study. The purpose of the study is to test the role of human resources and cultural differences in the success or failure of merger and acquisition strategies and how such strategies could enable merging companies to obtain competitive advantage in the marketplace (see appendix 3).

In order to obtain the research objectives and to test the study hypotheses, four questionnaires have been constructed for data collection in this study (appendix A3 and A4). Two of which are designed for merging companies (the main group) (appendix A3). The other two are for non-merging companies (comparative group) (appendix A4). The questionnaires for two groups (merging and non-merging companies) are designed to be very similar for the purpose of comparison. Yet, the context of each group calls for some differences in instructions and the structure of some questions. With regards to top and middle management questionnaires, they are designed to be the same except that two sections have been excluded from the top management questionnaire in each group. These are employee stress/anxiety section and commitment/trust section. They are excluded because such sections would not be suitable for top management, especially, since the majority of the study sample is family companies, and top managers are most likely to be the owner, partners or trusted managers. Moreover, the competitive advantage section has been excluded from middle manager's questionnaires. This section has been eliminated because it could be beyond the experience and knowledge of middle managers. This has been proven in pilot studies as a number of respondents made it clear that they do not have enough information and experience to answer such section (they write" I do not know", "I am not sure but I speculate"or "leave it blank"). Furthermore, integration approach section is excluded from non-merging questionnaire. Non-merging companies do not need to answer this, because they do not undertake mergers or any kind of similar change.

As discussed above, this study entailed constructing four questionnaires. These questionnaires are similar to a great extent. Therefore, it is unnecessary to go through all the four questionnaires. Thus, the aim of the next section is to provide more detail regarding the components of the study questionnaire in general, accompanied by explanation of the questionnaires and how they relate to the component.

The study questionnaire consists of seven parts that measure the different variables needed to conduct this study, as follows:

The **first part** of the questionnaire asks questions relating to Saudi companies' attitude towards mergers and acquisitions. The researcher developed eight items to measure this variable. The managers were asked to assess their attitude toward the eight items on a 5-point scale, with 1 = "strongly disagree" and 5 = "strongly agree". Aggregating these eight items would measure Saudi company's attitude toward mergers and acquisitions. This part is included in all four questionnaires (appendix A3 and A4). It is also worth noting that this part is the first part in all merging questionnaires, but it is the sixth part in the non-merging questionnaires. This is because it could create obstacle for pursuing to the other parts of the questionnaire, as respondents may consider such questionnaire is appropriate only for merging companies. This was proved in the pilot study.

Second part of the questionnaire involved asking questions that related to the impact of stress and anxiety (associated with mergers and acquisition) on employee feelings. Fourteen items have been used to measure this variable (the impact of stress and anxiety on employee feelings). Questions 7, 9, 10, 11, 12, 13, 14 have been developed by the researcher and questions 1, 2, 3, 4, 5, 6, 8 taken from the study of (Cohen et al., 1983). Responses to these questions were assessed in terms of a 5-point scale, with 1= "Never", and 5= "Very often". Aggregating these fourteen questions would measure the level of employee stress associated with M/As. This part was only included in middle management questionnaires (appendix A3). It should be noted that this part is the first part in non-merging questionnaire and the second part in merging questionnaire.

Third part is related to the cultural differences between the two top management groups of the merging companies. Fourteen items have been taken from the study of Chatterjee and et al (1992) to measure this variable. Aggregating these items would measure, (1) The degree of difference between the two merging companies in merging questionnaires. (2) It would measure the differences between a company now and 3-5 years ago in non-merging questionnaires. Responses to these items were assessed in terms of a 5-point scale, with 1= "Very similar" and 5= "Very different". This part is included in all four questionnaires (appendix A3 and A4). This part is the second in merging questionnaire top management and third part in middle management questionnaire. It is also the first part in the non-merging questionnaire, and the second part in the middle management questionnaire.

Fourth part of the questionnaire is designed to measure the mechanism by which human resources and cultural differences are effectively managed. This part is divided into five sections. ***Section one*** is related to managers' perceptions of the procedural justice within their company (JUST) and fourteen items are used to measure this variable (managers' perception of procedural justice). The researcher has developed items 4, 5, 6, 7, 10, 11, 12, 13, and 14 and items 1, 2, 3, 8, and 9 were adopted from the questionnaires used by Brockner et al (1995) and Gopinath and Becker (2000). Aggregating these fourteen items would measure how fair a company treats and deals with its employees and managers. Managers were asked to assess their perception to each of these items on a 5-point scale, with 1= "Strongly disagree" and 5= "Strongly agree". This section is included in the all four questionnaires (appendix A3 and A4).

Section two is related to the integration approaches that merging companies have used to combine the two companies (INTAP). Nine items are used to measure this variable (the effectiveness of the integration approach). This scale is taken from the study of Schweiger and Weber (1989). Aggregating these items would measure the effectiveness of the merging approaches used. Managers were asked to describe the way their company integrated with the other company for each item on a 5-point scale, with 1= "Not used at all" and 5= "Used very often". This section is included only in merging and top management questionnaires (appendix A3).

Section three is related to programmes used to help managers and employees to cope with the changing business environment (COP). Six items have been used to measure this variable, and have been taken from the study by Schweiger and Weber (1989). Responses to these items were also assessed in terms of a 5-point scale, with 1= "Not used at all" and 5= "Used very often". This section is involved in all the four questionnaires (appendix A3 and A4).

Section four is related to the communication media used by management to communicate information to employees so they able to understand the events and conditions relating to their company and its environment (COMM). Nine items are used to measure this variable (communication media) and these items have been taken from the study of Schwieger and Weber (1989) and Gopinath and Becker (2000). Items 1-5 represent the official communication channels, while items 6-9 represent the non-official communication channels. Aggregating these nine items would measure the effectiveness of the communication media used by a company. Responses to these items were also assessed in terms of a 5-point scale, with 1= "Not used at all" and "Used very often". This section is included in all four questionnaires.

Section five is involved with two variables; one of which is related to the communication plans used by a company (COMP). Six items have been selected from the study of Schweiger and Weber (1989) to measure this variable (communication plan). Aggregating these six items would measure the effectiveness of the communication plan a company used. Respondents were asked to describe the communication plan uses by their companies in terms of a 5-point scale, with 1= "Strongly disagree" and 5= " Strongly agree". The second variable relates to the co-ordination plan linked to the companies under investigation with its stakeholders (COOP). The researcher developed three items to measure this variable. This section is included in all four questionnaires.

Fifth part is related to the external environment. This part is divided into three sections. ***Section one*** is related to considering and assessing the company's environment. Three variables are involved in this section. One of which is related to understanding the business environment (UNEN). Eleven items have been developed by the researcher to measure this variable (understanding business environment). Six items have been used to describe the general environment (economic, globalisation, government and technology). Five items represent the competitive environment; each item describes one of the forces that formed Porter's industrial model. Therefore, aggregating these eleven items would measure the degree of environmental consideration at both levels. Respondents were asked to describe how their companies considered their environment on the basis of a 5-point scale, with 1= "Completed neglected" and 5= "Thoroughly considered".

The second variable relates to the source of environmental information used (ASSW). The researcher has developed three items to measure this variable. The third variable is related to the time of the environment assessment (ASST), in which the respondents were asked about the source and time of environment assessment of their companies in terms of a 5-point scale, with "Strongly disagree" and "Strongly agree". This section is included in all four questionnaires.

Section two relates to how a company would hold itself together whilst the merger (change) process proceeds (organisation coherence "COH"). Thirteen items have been developed by the researcher in order to measure this variable. These items are based on four criteria taken from the study of Pettigrew and Whipp (1991); these are feasibility, consistency, consonance and advantage. Items 1-4 are developed to measure the feasibility criterion, items 5, 6, 7, 10, 12, 13 are developed to measure the consistency criterion, items 8, 9, 11 are developed to measure the consonance criterion, whilst the advantage criterion is measured by eleven items in the next section. Respondents were asked to assess to what extent they agree or disagree with these thirteen items on the basis of a 5-point scale. Aggregating these thirteen items would show the coherence degree of a company during its merger (or change) process. This section is included in all four questionnaires (appendix A3 and A4).

Section three relates to the ability of a company to achieve competitive advantage through merger/acquisition. This section is divided into three variables: One of which is differentiation through human resource (ADVH). The researcher developed items 2, 3, 4 for measuring this variable (ADVH). The second variable is related to company size as a source of competitive advantage (ADVS) and the researcher developed items 1, 5, 6, 7, 8 to measure this variable –differentiation though the size of company. The third variable relates to government support as source of competitive advantage (ADVG) and three items (9, 10, 11) have been used to measure government support; these items were taken from the study (thesis) of AL-Awadh (1996). Respondents were asked to indicate their opinion about these eleven items on the basis of a 5-point scale, with 1= "Strongly disagree" and 5= " Strongly agree". This section is included only in top management questionnaires (appendix A3 and A4).

Sixth part relates to the outcomes that are brought about as a result of the process used by company management. This part is divided into two sections.

Section one is concerned with employee commitment and organisational trustworthiness (CTRS). Items 1, 2, 3, 5 are selected from the study of Brockner and et al (1995) and Gopinath and Becker (2000) to measure the organisational trustworthiness. Employee commitment is measured by five items (4, 6, 7, 8, 9); items 6 and 7 are taken from the commitment measurement that was developed by O' Rielly and Chatman (1986) and refined by Becker (1992) and Becker et al (1996); items 4, 8, 9 were developed by the researcher. Aggregating these nine items would measure employee commitment and trust in its organisation. This section is included in only middle management questionnaires (appendix A3 and A4).

Section two relates to organisational performance in which two performance variables have been used in this study: financial performance (PERFY) and non-financial performance (PERFX). Financial performance was measured by asking the respondents to rate their organisation's performance on five indicators: (1) Sales growth, (2) return on assets, (3) marker share, (4) share price and (5) overall performance, which are most frequency used to measure financial performance in strategic management literature (Lenz, 1980; Very et al, 1997; Weber, 1996; Lubatkin, 1983; AL-Awadh, 1996). Financial performance for merging companies was rated before (PERFYB) and after (PERFYA) the merger, whilst financial performance for non-merging companies was rated for the current performance (PERFYC) and three years ago (PERFYB) for the purpose of assessing a company's performance regarding change and stability. Non-financial performance was measured by asking the respondents to rate their company in terms of three indicators: (1) Public image and goodwill, (2) quality of services and (3) efficiency of operations. These three indicators have been selected from the questionnaie used by Kharti (2000). Non-financial performance for merging companies was rated before (PERFXB) and after (PERFXA) the merger, whilst non-financial performance for non-merging companies was rated for the current performance (PERFXC) and three years ago (PERFXB) for the purpose of assessing a company's performance regarding change and stability. This technique of performance measurment (finance and non-finance) has been used for the following reasons: firstly there may be a lack availability of financial performance. It is very difficult to obtain financial data from Saudi companies, especially those that are family companies and of limited liability. This problem was confirmed during the pilot study. The secondly reason is the size of the sample (140 merging and non-merging companies) used in this study, which is relatively a large sample. With such a large sample, the self-typing (Snow and Hambrick, 1980) method is very useful (Conant and et al, 1990). Organisation performance (finance and non-finance) was measured by using the 5-point scale, which ranged from 1= poor to 5= excellent. This section is included in all four questionnaires (appendix A3 and A4)

The last part of the questionnaire includes descriptive questions, such as name of company, before and after the merger, date of merger, position, experience in the organisation, number of employees, ownership status, type of merger and company legal form. These questions were included to assess the characteristics of the respondents and their companies. The respondents are also asked if they had any comments regarding the subjective nature of the questionnaire.

7.6.1 THE QUESTIONNAIRE RULES AND DESIGN

To serve the purpose of the study, the following rules and procedures were taken into account during the process of the questionnaire's construction (Oppenhiem, 1992; Frankfort-Nachmias, and Nachmias, 1996; Robson, 1999):

I. The questions (items) that represent the questionnaires reflected the objectives of the study. Namely answering such questions (items) the respondents will provide relevant data for hypotheses testing. Therefore, questions and items of the questionnaire were derived from the research hypotheses. The process of constructing and developing the questionnaire's items and questions went through the following stages. The first stage was the research concept development during the early stages of this study, where intensive related literature reviews were conducted, and also preliminary empirical studies for the Saudi context was undertaken. This enabled the researcher to generate the fundamental concepts of the study (understanding the environment, cultural differences, communication plans, organisation coherence, and so on). The second step was to fractionate the basic concept into dimensions and elements. This may was done through deduction or by empirical correlation of the individual dimensions with the total concept and/or other concepts (Emory, 1976). For instance, understanding the environment represents the fundamental concept in this study, which was fractionated into two dimensions: general environment and competitive environment. Once the dimensions were realised the researcher developed indicators (questionnaire items/questions) by which to measure each conceptual element. This stage links the theoretical definition of the concept with empirical research and is therefore the means by which such concepts are rendered researchable. Because there is seldom a perfect or absolute measure of concept, several indicators were considered for the conceptual dimensions. In this study, for example, seven indicators were used to measure the general environment dimension and five indicators used to measured the competitive environment (see appendix 3). Thus, the questionnaire is the instrumental measurement that enabled the researcher to transform the conceptual (theoretical) definition into empirical research. The researcher recognised the important of congruence between the conceptual (theoretical) and the operational definitions (questionnaire items/indicators). In other words, the researcher ensured that the indicators used to measure the concept (variable) were used through pilot studies and validity testing (more detail will be given next). Therefore, the process of constructing the questionnaire started from the early stages of the study.

II. The questionnaire distinguishes between the factual and attitude questions during the process of the design. Factual questions were designed to gain objective information from the respondents such as their experience, job positions, organisation legal form, education level, and date of mergers etc. Since these questions were not subjective questions, they were left until the end of the questionnaire for the purpose of reducing their negative effects on the rest of the questionnaire. Moreover, some factual information may not be recalled, so the researcher tried hard to design these questions to be easily recalled by the respondents using multiple-choice answers or the answers were given in the form of a range. The attitude questions (items) were designed to measure the subjective experience of the respondents' beliefs, attitudes, opinions and feelings toward something. The construction of the survey questions to measure opinions and attitudes presented more problems than the survey questions regarding facts of the mergers/acquisitions process. For example, it is relatively simple to obtain accurate information about a respondent education level, but a researcher cannot always make sure that a respondent knows what he thinks (his attitude) toward something. Respondents may not have an opinion towards the variable in question or it may be hidden. Therefore, the attitude survey was designed in a way that aroused the respondents and attracted their attention to the main variable to be measured through asking a major question that was placed at the top of a matrix of specific questions (items) for each attitude survey. Moreover, attitudes often have numerous aspects or dimensions such that a respondent may agree with one aspect and disagree with another. Therefore, each survey attitude was designed to involve several statements that could measure all of the dimensions of attitude, which could ascertain accuracy about both the strength of a respondent's attitude and the conditions under which this attitude may change.

III. The structure of the questionnaire can be either closed-ended or open-ended. In a closed-ended structure, the respondents are offered a set of choices and asked to select the one that most closely represents their views. With an open-ended structure, the respondents are not provided with any kind of specified choice, and they are offered an opportunity to talk in full. The questionnaires used were built on a closed-ended structure. However, a few open-ended and contingency questions were also added to the questionnaire. The justification of using the closed-ended structure was that it was easier to ask and quick to answer. It also requires no writing by either respondent or researcher and its analysis is straightforward, and it was ascertained that managers are not interesting in open-ended questionnaires. This can be attributed to the weakness of Saudis in expressing their ideas in full, they may not have enough time or they may lack co-operation. In spite of the advantages of the closed-ended structure it has a major drawback, which is introducing bias either through forcing the respondent to choose from given alternatives or through offering the respondent alternatives that might not have otherwise come to mind. The researcher tried to mitigate this problem through providing spaces after some group of questions and at the end of the questionnaire for those who want to make comments or add information. Moreover, through conducting a number of in-depth-interviews with executives and middle managers of companies that answered the questionnaire.

IV. There are several common techniques to structurng the response categories of closed-ended questions. The questionnaire used rating scales (Lickert scales) as we ask the respondents to make a judgement in terms of sets of ordered categories such as "strongly agree........strongly disagree" or "very often........never". The categories were accompanied by numerical codes that are interpreted to represent the intensity of the response categories.

V. The appearance of the questionnaire was designed in such a way that attracted the attention of the respondent and made it easier to read for the purpose of encouraging the respondent to complete it accurately (see appendix A3 and A4). Therefore, the layout of the questionnaire was designed so that each main variable measurement (items and questions) was in the form of a table. At the left side of the table were items/questions designed to measure the variables. On the right hand side, the scale categories have been inserted at the top of the table coded by numbers for each items (questions). Each main variable measurement has been designed to be on one completed page. At the top of each page instructions have been given to direct the respondent on how to answer the questions, also at the top of each table, a question was provided to help the respondent tick the answer that best fits with his opinion and attitude.

The first draft of the questionnaire was created based on the above considerations. Questionnaires do not emerge fully from one-shot attempts; they have to be created, fashioned and developed to maturity after many abortive test flights (Oppenheim, 1992). Therefore, questionnaires have to (should) be developed, tried out, improved and then tried out again a number of times, until we are certain that the questionnaires can serve the purpose for which they have been created. The questionnaire used in this study was piloted to make sure was appropriate for meeting the objectives of the study.

7.7 PILOT STUDY

a pilot work was conducted to ensure the appropriateness of the questionnaire and to check its reliability and validity. A pilot study was undertaken in the anticipation of discovering any problems with the questionnaire or its application in general. Piloting could help us, not only with the wording of questions but also with procedural matters such as the design of a letter of introduction, the ordering of question sequences and the reduction of non-response rates. Moreover, piloting other aspects of the research, such as, how to gain access to the appropriate respondents was undertaken, especially as we know that Saudi companies are very conservative in providing any piece of information regarding their activities. Therefore, a pilot study enabled the researcher to plan the accessibility process in advance. Furthermore, a pilot study aided the researcher during the process of translating the questionnaire into Arabic language.

Therefore, nothing was taken for granted, piloted the wording of the questions (items), the instruction given to the respondents, the layout of the questionnaires, the answering categories, the covering letter and the scale used were all piloted. The pilot work can be divided into two stages:

7.7.1 THE FIRST STAGE OF THE PILOT STUDY

After creating the first draft of the questionnaire and after consulting my supervisor, it was sent to ten of Saudi 's PhD students who study business administration and have conducted fieldwork. I asked them to comment on the questionnaire's appropriateness in terms of:

I. Layout
II. Wording
III. Length
IV. Statistical analysis
V. Any suggesting and recommendations

Five of the students sent back the questionnaire with valuable comments and suggestions. Unfortunately, all of them expressed that they do not have statistical experience, but the comments they provided were very practical and useful, so I adapted the questionnaire to incorporate their comments and the adaptation has been conducted after consulting my supervisor. Their comments mainly focused on the layout (appearance) of the questionnaire, three of them saw the appearance as not appropriate and they suggested a table at the left hand side and to place the questions (items) and on the right side and the answer categories should be coded by numbers to each questions (items). I found this layout more attractive and easier to answer than the one I had used. Also, two of them suggested that a questions (items) table should be headed by a question to help the respondent to choose the answer that best fit with the attitude. All of them expressed the view that the questionnaire was very long. Therefore, after reviewing the questionnaire with my supervisor, a number of items (questions) in each section, as well as the completed section, were omitted. This reduced the volume of the questionnaire by two pages. Two statistical experts have reviewed the statistical appropriateness of the questionnaire, one of whom is from the Sheffield University Management School (Dr. Joe padmore), and the other is from Sheffield University Sociology School (Dr. Nona). They provided very good comments that helped the researcher to revise a number of categories.

7.7.2 THE SECOND STAGE OF THE PILOT STUDY

After I had revised the questionnaire to incorporate the referees' comments and suggestions, I translated the questionnaire into Arabic language. I piloted the Arabic version by sending the questionnaire to a sample of Saudi PhD students at the Sheffield University. I asked them to comment on the questionnaire in terms of:

I. Arabic grammar
II. Ease of reading and understanding
III. Appearance and layout
IV. Wording

Ten of them sent back the questionnaire with valuable comments and suggestions especially on Arabic grammar.

I was in Saudi Arabia during 2001 to do my fieldwork. Firstly I administered the two questionnaires (merging company and non-merging questionnaires) to an expert in Arabic language and I ask him to review them and to provide me with his comments with respect to grammar, wording and any other suggestions. Secondly, I sent the questionnaires to two academicians in strategic management, one of whom is from King Saud University (Dr. Al-Awadh, M) and the other is from King Faisal University (Dr.Al-Arfaj). I asked them to read the two questionnaires and to provide me with their opinions and suggestions. They praised the questionnaire in terms of its appearance, wording, sequence and grammar. Dr. Al-Arfaj suggested two more questions about organisational legal form and ownership; he also suggested that the competitive advantage section should be omitted. I added the suggested questions, as they would help to identify important relationships in the study, but I didn't find a justifiable reason to omit the competitive advantage section. Finally, the merging-company questionnaire was sent to two merging companies (seven to each), and the non-merging-company questionnaire was sent to two non-merging companies (seven to each). 65-70% of the questionnaires (merging and non-merging companies) were completed. I reviewed the questionnaires collected from the sample several times and found that the majority of the respondents tick the extreme answering categories "1" or "5" for each item. This is because the instructions that are given for each section directed the respondents to select response number "1" if he strongly disagree, and if he strongly agree he has to select number response number "5". The respondents misunderstood the instructions and they thought that they have to tick "1" or "5". This mistake could not have detected without the pilot study. Therefore, I revised the instructions to every section in the questionnaire to be easier to understand and directed the respondents to tick the answer that best fits with the attitude and opinion. This was achieved with the help of an expert in Arabic language.

7.8 RELIABILITY AND VALIDITY OF THE QUESTIONNAIRE

Each question or group of questions has an aim and this aim is a measurement of a particular variable, as laid down in the questionnaire specification. It is important to make sure that each question, or group of questions, fulfills its aim. Reliability and validity test could answer such question. There are number of definitions for each term, which reflects the different types of each. Various terms relate to the definition of reliability including consistency, stability, equivalence and agreement (Kerliger, 1986). Different terms are also related to the definition of validity including content, criterion-related and construct validity (Emory, 1985). General definitions for each can be given. Reliability "refers to the purity or consistency of a measure, to repeatability, to the probability of obtaining the same results again if the measure were to be duplicated" (oppenheim, 1992: 144). Validity refers to the ability to measure what it suppose to be measured (Frankfort-Nachmias, and Nachmias, 1996; Emory, 1976). Reliability of a measurement is prerequisite for the validity of that measurement. In other words, if the reliability of a measurement is poor; the validity of that measurement is poor as well. Yet, reliable instruments are not a sufficient condition for its validity (Emory, 1985). Therefore, to test the reliability of each sub-scale, in this study, the coefficient of Cronbach's Alpha was calculated using the SPSS package (results will be shown in the next chapter). Flynn et al (1990) indicated that Crownbach's Alpha is one of the most widely accepted measurements of reliability. Although the score of Crownbach's Alpha is more a subjective matter than an objective one, researchers such as Nunnally (1978) suggested that a reliability score approaching 0.80 is desirable; he suggested that in the early stages of the research, reliability over 0.50 is acceptable for a new instrument. However, the appropriate value of reliability that is usually accepted is 0.60 (Bausel, 1986; Nunnally, 1978).

Having examined the reliability of the research instrument, the validity of the instrument would be partly tested as well. As it was discussed in the previous section, the validity of this research questionnaire was of concern from the early stages of its research and development. Each item on the questionnaire, as discussed above, was developed from a theoretical and/or empirical concept from the management literature and with regard to the Saudi context. Furthermore, face validity of the questionnaire was examined as it was given to two statisticians and to two academicians within strategic management to review the questionnaire and to provide their suggestions and opinions, as discussed in the pilot study above. Moreover, validity of the measurement can also be tested by comparing the relationship between the different variables under investigation in the study with those of the relationships discussed in the literature and from which the study conceptual framework was derived (construct validity). When the empirical findings are consistent with that of the theory, this is an indication of the construct validity of the instrument. (detailed analysis of reliability and validity of the study questionnaires will be in the next chapter)

7.9 DATA ANALYSIS METHODS

Although the data was analysed after the field work, much thought was given to the analysis techniques from an early stage in the research design process. The normal steps in the analysis process, especially in the survey, was the editing of the collected raw data. The researcher checked the data to make sure that it was as accurate as possible, consistent with other secured facts, uniformly entered as complete as possible and acceptable for coding and tabulation.

Before going though the statistical techniques used, it is appropriate to talk about the scale used in this study since valid statistical tools depend on what type of scaling is utilised.

7.9.1 SCALING

Based on Davis and Consenza (1993), the goal of measurement is "*to translate the characteristics and properties of empirical events into a form that can analysed by the researcher*" P.159. Scales can be nominal (no order, distance, or origin, but it is only categorical), ordinal (order, but no distance, or unique origin), interval (both order and distance but no unique origin), ratio (order, distance, and unique origin) (Bryman, 2001; Chisnall, 1986; Davis and Cosenza, 1993). Three popular types of scaling techniques are usually used by researchers in the measurement and scaling of attitude. They are single, response format, semantic differential and lickert scales (Emory, 1980). The Lickert scale has been used in this study because of the followings:

I. The likert scale is bi-polar, with an upper and a lower-bound. This allows the researcher to use raw data without having to run complex, data manipulation techniques to standardise the data , thus reducing cost and time on data processing.

II. "Hard" data on most of the items would not have been readily available to the respondent. In addition, the subjective nature of the response on some of the items would make the collection of hard data impractical.

III. The use of Likert scales have been found to be an acceptable technique for collecting data on causes and effects of mergers and acquisitions (Burgman, 1983).

The lickert scale is ordinal and respondents are reported as being either more or less favourable to a topic, but not how much more or less favourable they are. Researchers in behavioural sciences differ in their opinions as to whether the more powerful parametric tests are appropriate with ordinal scales. One position is that the use of parametric tests for ordinal measurment is incorrect on both theoretical and practical grounds. This view was strongly argued by Siegel (1956). According to him "*If the measurement is weaker than of an interval, by using parametric tests the researcher would "add information" and thereby create distortions*" p. 32.

At the other extreme some behavioural scientists argue that parametric tests are usually acceptable for ordinal scales on both practical and theoretical grounds. On this position Anderson (1971) written "*regarding practical problems, it was noted that the difference between parametric and rank-order tests was not great insofar as significance level and power were concerned. It was concluded that parametric procedures are the standard tools of psychological statistics although non-parametric procedures are useful minor techniques*" p.316.

Another view, somewhat between these two extreme, recognised that there are risks in using parametric procedures on ordinal measures, but these risks are usually not very great. Kerlinger (1973) expressed the view, which was adopted in this study, "*the best procedures would seem to be treat ordinal measurements as though they were interval measurement, yet to be constantly on alert to the possibility of gross inequality of measurement*" p.441.

7.9.2 DATA ANALYSIS TECHNIQUES

The collected data was be analysed using computer software programmes such as SPSS and Excel. Different statistical techniques are used in the data analysis, and the selection of techniques is based on their relevance to the nature of the data and the research hypotheses. Therefore, these techniques are applied where applicable:

I. To analyse the characteristic of the firms and managers, means and frequency distribution are used.
II. To check the reliability of variables under investigation, croncbach's Alpha was calculated.
III. To correlate between variables under investigation, Spearman's rho correlation is used.

IV. To identify critical success factors in the context of mergers/acquistion, logistic regression analysis is used.

V. To assess the degree, to which items that measure a concept are tapping the same concept, factor analysis is used. A large number of variables can be reduced to a smaller set using factor analysis.

VI. To prove the similarity of merging and non-merging companies regarding the criteria that are assumed, Mann-Whitney test is used. To examine if there is a difference between the companies' size before and after mergers/acquisitions, Wilcoxon test for two related samples is utilised. This could prove the seriousness of the respondents.

VII. To identify the correlation differences in performance and the important factors for merger/acquisition success, the Fisher's Z-transformation test is employed.

VIII. to assess the change and stability of performance, paired-samples t-test is applied. To assess the difference between merging and non-merging companies with regard to performance, the independent samples t-test is employed.

Chapter 8

8. RELIABILITY AND VALIDITY ANALYSIS AND DESCRIPTIVE RESULTS

8.1 INTRODUCTION

Details on the methodology used to collect the study's data were presented within the previous chapter. This chapter details the data collected and the previously described methodologies are also analysed and presented. This chapter contains three sections, with the first section presenting the analysis and justification of the response rate. The second section provides a detailed analysis of the study questionnaire's reliability and validity. The final section shows the analysis of descriptive results (the characteristics of the managerial and the companies involved), these results will be used to support the reliability of the study's questionnaires.

8.2 RESPONSE RATE

The response rate is measured by the percentage of respondents in the sample who return completed questionnaires (Frankfort-Nacmias and Nachmias, 1996).

As discussed in the previous chapter, this study was designed to consist of two groups: merging companies (main group) and non-merging companies (comparative group). Two questionnaires were constructed for each group (top and middle managers) and four questionnaires were constructed. The response rate for each will be discussed as follows:

8.2.1 MERGING COMPANIES RESPONSE RATE

Table 8.1 illustrates that there are about 73 Merging cases within Saudi Arabia each of which were given one top management questionnaire and a number of middle management questionnaires according to their size. In other words, 73 top management questionnaires in addition to 210 middle management questionnaires have been given to merging companies. 47 top managers responded, which was a 64.4% response rate. A total of three who returned their questionnaires were excluded from the study because the respondents had left a number of sections unanswered, leaving a total of 44 usable top manager questionnaires for this study (60.3%).

Regarding the middle management questionnaires, 70 middle managers responded, providing a response rate of 33.3%. A total of five returned questionnaires were eliminated from the study because the respondents left number of sections as well as some items within sections unanswered, leaving a total of 66 usable middle management questionnaires for this study (31.4%).

8.2.2 NON-MERGING COMPANIES RESPONSE RATE

For the purpose of comparison, 70 top manager questionnaires were delivered to the matched non-merging companies. 41 top managers responded, for which the response rate was 58.6%. Two were excluded from the study since the respondents had left important sections unanswered. This left a total of 39 usable questionnaires (55.7%) for this study.

Regarding middle management questionnaires, 200 middle manager questionnaires were administered to the matched non-merging companies. 63 middle managers responded of which the response rate was 31.5%. One questionnaire was eliminated because it was incomplete. Hence, the total usable questionnaires were 62 (31%).

Table 8.1: Response rate

Company group	Administered	Received	Usable
Merging company Top management	73	47 (64.4%)	44 (60.3%)
Middle management	210	70 (33.3%)	66 (31.4%)
Non-merging company Top management	70	41 (58.6%)	39 (55.7%)
Middle management	200	63 (31.5%)	62 (31%)
Total	553	221 (40%)	211 (38.2%)

Top management-related research is expected to have a response rate of an average around 50% or below (Al-Awadh, 1996). The typical response rate for a mail survey without following up is between 20-40% (Frankfort-Nachmias and Nachmias, 1996). Moreover, for postal surveys a response rate of approximately 30% is reasonable (Owen and Jones, 1994). Sounders et al (2000) stated that response rates to recent business surveys are as low as 15-20% for postal surveys. Therefore, the response rates of 60.3% and 55.7%, which were obtained from top merging and top non-merging questionnaires, respectively, are considered to be a good response rate for a study containing a questionnaire survey. The response rate also could be considered a very good rate in a developing country such as Saudi Arabia, especially because Saudi companies by nature is conservative. Furthermore, the high rate of response indicates top executives in developing countries (Saudi Arabia) are as co-operative as those in the developed countries when they were approached. Such high response rates could be attributed to the techniques and strategies that were used by the researcher, these are:

Firstly, a pre-survey contact was made by telephone to executives in order to advise them to expect a questionnaire in addition asking them for the appropriate time to visit them. This facilitated contact with executives and talking with them and also administering the questionnaires without much of a problem.

Secondly, the drop-off technique was used to distribute about 70% of the study questionnaires. This technique enabled the researcher to schedule a very short meeting with top executives in order to brief each of them on the research objectives and to request their participation. Relatives and friends of the researcher distributed about 10% of the study questionnaires and 20% were posted.

Thirdly, after distributing all of the study questionnaires, the researcher organised his time to include a follow-up telephone call. Two weeks after the distribution process, the first follow-up was went a head to remind those who have not responded yet to do so. The second follow-up occurred two weeks after the first follow-up for those who still had not responded, and was conducted to persuade and encourage them to respond. The third follow-up, after a further week, was done to encourage and emphasise the importance of completing the questionnaires. A further Fourth and fifth follow-up were conducted until an adequate response rate was obtained. Because the distribution of the study questionnaires were completed at the end of July the majority of executives were on vacation, so numerous follow-ups were necessary in order to obtain the high rate of response received.

Fourthly, in addition to the attention given to the improvement of the appearance and style of the questionnaire, two formal letters were attached to all of the questionnaires that were directed to top-level executives. One of which was from the Sheffield University Management School, which explained the nature of the questionnaire, the general purpose of the study and assured the confidentiality of the information given by the respondents, and that any information would be used for academic research only. The other official letter was from king Saud University, the sponsor body of the researcher, encouraging the respondent to help the researcher by completing the questionnaire.

In order to ensure that the survey did not suffer from a non-response bias, non-responding merging companies were checked. During the follow-up process by telephone, the researcher was able to investigate the reasons why non-response companies chose not to participate in the survey. The researcher categorised the reasons for not responding to the survey into four categories. These categories, and the response distribution, are presented in Table 6-2. As it can be concluded from the table, the main reason for not responding to the questionnaires was that the study was not applicable to their companies (as they did not undertake any mergers or acquisitions) because they restructured their companies or combined two of their branches. Such reasons could support the representative of the sample rather than bias it, since such companies should have not been included in the study population. The second important reason was time constraints and the lack of availability of the executives consequently lowered the response rate, but did not bias the representativeness of the sample to a significant extent.

Table 8.2: Reasons for non-response

Reasons for non-response	Number of companies
1. This study was not applicable to their companies	12
2. Time constraints	6
3. Refuse to respond	2
4. No specific reasons	2
Total	22

Middle manager response rate was 31.4% and 31% for merging and non-merging companies, respectively. These rates are considered reasonable for a questionnaire survey, but they were significantly less than the top manager response rate. During the follow-up and collecting processes, the researcher investigated the reasons of such a relatively low response rate of middle management survey. These reasons were classified into three main categories. These are:

I. One middle management questionnaire is enough to represent a company's middle managers. We should notice that each top management questionnaire was accompanied by at least one middle management questionnaire. In other words, there is no company, which responded, who was only sent top management questionnaire.
II. Middle managers could lack the confidence and knowledge to participate in the questionnaire survey, especially in developing countries such as Saudi Arabia.
III. No time available.

Each company that responded to the survey were sent out one top management questionnaire and at least one middle management questionnaire. However, the majority of large companies who responded were sent out two or more middle management questionnaires. For instance, ARAMCO, the largest company in Saudi Arabia was sent out four middle management questionnaires, Saudi American Bank received five questionnaires and others sent two or three. Therefore, we could say that the non-response bias was not a major issue in the middle management population as each company that responded, mailed back one top management questionnaire and at least one middle management questionnaire. In other words, one middle management questionnaire for a company could represent the opinions and attitudes of middle managers within that company. Thus, the reasons for non-response (one middle management questionnaire is enough to represent a company) would not present many concerns of a non-response bias.

Regarding the other reasons such as lack of confidence and no available time, these reasons could lower the response rate, yet would not bias the sample to a significance extent.

8.3 RELIABILITY AND VALIDITY OF THE STUDY

Some aspects of the study measurement validity and reliability were discussed in the previous chapter. Some statisticians provide broad guidelines on these two issues, for example, Orenstein and Phillips (1978) discussed the ways of testing validity and reliability, and Kozolov and Ushakov (1970) devoted a complete book to reliability. However, there is no definite answer to measuring the validity and reliability of research findings (Emory, 1980). Reliability and validity are never perfect; it is always a matter of degree, especially in the social and behavioural sciences. In addition to this reliability is expressed in the form of a correlation coefficient and it is rare to find reliability much more above .90 (Oppenheim, 1992). In other words, any measurement tool in social sciences is never free of errors. More clearly, each measurement consists of two components: a true component and an error component (Frank-fort-Nachmias and Nachmias, 1996). To minimise error components and to maximise a true component of a measurement both the validity and the reliability of the study have to be tested.

8.3.1 VALIDITY ANALYSIS

The main measurement of this study is the questionnaire instrument. To ensure that the questionnaire measure what it intends to be measured, the validity test was conducted. However, problems occur with validity because measurement in the social sciences must take place indirectly (Oppenheim, 1992). Under such circumstances, researchers are never completely certain that they are measuring the variable for which they designed their measurement instrument. To negate such problems, three basic kinds of validity are distinguished, each of which is concerned with a different aspect of the measurement situation: content validity, empirical validity, and construct validity (Franckfort-Nachmias and Nachmias, 1996). The discussion below briefs these kinds of validations and relates them to the study measurements. This could provide supporting evidence that the study questionnaires measured what they should have measured.

8.3.1.1 CONTENT VALIDITY

There are two common types of content validity: face validity and sampling validity. Face validity is a subjective evaluation of the validity of a measuring instrument. This validity is not concerned with the instrument measure that the researcher intends to measure, rather, it is more concerned with what the researcher believes is the appropriate instrument as a measurement for the subject under investigation.

The face validity of the study questionnaire instrument has been checked. This has been done by approaching two statisticians and two strategic academicians (which were discussed in the pilot study in the previous chapter) to review and to provide their judgement regarding the appropriateness of the questionnaire to the topic under investigation. There was agreement amongst the experts as to the appropriateness of the questionnaire in terms of statistical appropriateness, appearance, easy to understand, and relevance to the topic under investigation. This agreement gave the researcher the opportunity to propose that the questionnaire had face validity.

Sampling validity refers to the extent that the statements, questions, or indicators (the content of the instrument) adequately represent the property (attribute) that being measured. If the questionnaire adequately covers the topics that have been defined as the "relevant dimensions", we can conclude that the instrument had good content validity (Emory, 1980; Frankfort-Nachmias and Nachmias, 1996) and the determination of content validity was judgmental.

The sampling validity of the study questionnaire instrument has been determined through two stages:

Firstly, the questionnaire has been designed to represents the important dimensions of each main variable, which were identified through the exhaustive search of the related literature in developed and developing (Saudi Arabia) context during the exploratory stage (as discussed in the previous chapter).

Secondly, after constructing the questionnaire through careful definition of the topic of concern, the items scaled and the scales used, were piloted to ensure their validity (for more detail see the pilot study). Moreover, the questionnaire was revised and improved a number of times to incorporate the appropriate opinions and suggests of those who participated within the pilot study.

Such work, therefore, enabled the researcher to propose that the study questionnaire instrument contained sampling validity. Since we have proposed that the study questionnaire contains both face and sampling validity, we can conclude that the questionnaire has good content validity.

8.3.1.2 CONSTRUCT VALIDITY

This is related to linking the measuring instrument to a general theoretical framework for the purpose of demonstrating whether the instrument is applied to the concepts and theoretical assumptions they were employing (Frankfort-Nachmias and Nachmias, 1996). On other words, the theoretical expectations regarding the variable under investigation would enable the researcher to assume various types and degrees of associations between a particular variable and other specified variables. The construct validity of a measuring instrument can be demonstrated if the researcher showed that these relationships are in fact true.

A number of methods were suggested for construct validation of the measuring instrument. Cronbach (1975) describe the logical process of construct validation in the following ways:

Firstly, a researcher offers the proposition that an instrument measures a certain property (say, communication effectiveness). Secondly, through investigating the theoretical ground of the property, the researcher could predict which variables should be related to the property under investigation and which exhibit no relation to the property. Finally, the researcher then collects data that will empirically confirm or reject the predicted relationships. If the anticipated relationships are confirmed, the instrument is considered to be valid. However, if the predictions fail, the explanation lies in at least one of three possible causes: 1. The instrument does not measure the property under investigation, 2. The theoretical framework that generates the predictions is flawed, 3. The research design failed to test the predictions correctly.

Such processes have been conducted within this study. Accordingly, the construct validity of this study should not be problematic because the questionnaire measurement, to a great extent, has supported the theoretical framework of the study. This was derived from Pittegrew and Whipp (1991) conceptual framework as well as the theoretical ground of mergers and acquisitions. In other words, the anticipated relationships of the study, which were derived from the general theoretical framework (Pittegrew and Whipp) as well as theoretical grounds of mergers and acquisitions, have been confirmed (the results of the correlations will be presented in chapter 10). This gave the researcher the opportunity to propose that the construct validity of the study measurement was good.

In addition to the questionnaire, two supplementary data collection techniques have been used in this study (in-depth interview and document reviews). This enhances the construct validity if the results of each measurement technique as to the variables under investigation are highly correlated (Campbell, 1957). In other words, the validity of the study findings (convergent validity) would be enhanced if the findings yielded by the different data methods (questionnaire as the main source of data collection supplemented by in-depth interviewing and document reviews) are consistent.

8.3.1.3 PREDICTIVE VALIDITY

This refers to how well the test can forecast some future criterion such as job performance or mergers/acquisitions successes (Oppenheim, 1992). In other words, predictive validity is the degree of correlation between the results of a given measurement and an external criterion (Frankfort-Nachmias and Nachmias, 1996).

Valid external criterion against which the results were obtained by the study measurement is not available, so the validity coefficient for the study cannot be obtained. However, the study findings are consistent with other studies that were conducted in developed countries (the UK and the US) (Hubbard, 1999; Cartwright and Cooper, 1996; Birkinshaw and Bresman, 2000). Therefore, the results that have been produced by applying the study instruments (see chapter 9 and 10) has enabled the researcher to conclude that management of human resources and cultural aspects effectively represent the linchpin of the success of mergers and acquisitions in the context of Saudi Arabia. Consequently, we can propose that the measurement instruments of the study have predictive validity.

Up to this point we have discussed the evidence that supports the validity of the study measurement regarding all three types of validity. Thus, the researcher began to construct a measurement instrument, he first evaluated theories that could serve as a foundation for the instrument (construct validity); next, the researcher defined the content population of items from which a representative sample of items were drawn (content validity). Finally, he assessed the predictive validity of the instrument by associating it with an external criterion (research findings).

So far, the assessment of the study measurement validity has been based on subjective judgements to a great extent. Moreover, the measurement instruments in social sciences are rarely valid. In many cases, the evidence of validity is almost entirely lacking (Freankfort-Nachmias and Nachmias, 1996). Therefore, reliability is of central importance to social scientists for evaluating a measurement instrument. Reliability is not as valuable as validity, but it is easier to assess with some confidence that a number of situational factors are not creating a bias (Emory, 1976). Furthermore, validity and reliability are related to each other. In other words, reliability of a measurement is a necessary condition for the measurement validity, yet it is insufficient (Oppenheim, 1992). For example, a measure, which is unreliable, cannot attain an adequate level of validity because its error component is so great. On the other hand, a measure may be highly reliable yet invalid. Therefore, if we can establish reasonable amount of reliability for our measurement instrument, we may not see evidence of the study validity. There is hope that with the further work that has been conducted above, we may be able to establish an acceptable level of the study scale validity. In other words, if we have established the reliability of our measurement, we could have acceptable level of validity (content validity) of the measurement particularly in the field of attitude scaling (as it is the case of this study).

8.3.2 RELIABILITY ANALYSIS

Reliability, as we have seen earlier, is the degree that a measurement supplies consistent results (Emory, 1980). Reliability can be divided into two components according to the way it is estimated: external and internal reliability (Bryman, 1989). External reliability refers to the degree to which a measurement is consistent over time. This study measurement has external reliability if it does not fluctuate over time. The most obvious way of establishing the reliability in this sense is to administer a measure on two different occasions and then examine the degree to which respondents' scores are consistent over the two occasions, this reliability is known as test/retest reliability (Bryman, 1989; Oppenheim, 1992).

This type of reliability is unsuitable for this study because data collection has been conducted at a single point in time. Therefore, this study concentrates on establishing internal reliability, particularly Cronbach's Alpha and has been calculated for each sub-scale in this study, as discussed in the previous chapter.

Internal reliability refers to the degree of internal consistency of a measure. This type of reliability is of importance in the context of multiple-item measures (attitudinal scaling) in which the constituent indicators combine to form a single dimension. One method of establishing reliability in this sense is through the "split-half method". This method estimates reliability by dividing the group of items comprising the measure into two halves at random, and then the two halves are inter-correlated. The average inter-item correlation between all the items comprising of a measure establish internal consistency of the measurement using Cronbach's Alpha; this represents the other method to estimate internal reliability of a measurement. Therefore, a scale will be internally consistent if the items correlate with each other and are more likely to measure the same homogenous variable. Since the coefficient Alpha provides an estimate of the proportion of the total variance that is not due to error, this should (coefficient Alpha) represent appropriate the reliability of the scale (Oppenheim, 1992; Frankfort-Nachmias and Nachmias, 1996; Bryman, 1989).

The reliability of the study has been improved through:

I. In this study, each main variable has been designed to be measured by a set of items that represent the underlying attribute in a variety of different ways. A set of items (questions) is more reliable than a single opinion item. They provide more consistent results, mainly because the variety of questions will probably apply only to particular items, and thus any biases may be cancelled out, whereas the underlying attitudes will be common to all items in a set or scale. Based on Oppenheim's argument (1992), if we add up the scores for each respondent, the total score will be better, and more a reliable measure because all of the true components of the various items will be added together, whereas the error components will be non-additive and random. Accordingly, the more items we use, the higher the reliability of the total score. However, there is a point of diminishing returns, so most of the scales tend to consist of no more than two-dozen items each (Oppenheim, 1992).

II. A preliminary conceptual framework of the study and in-depth interviews were used as a guideline to produce the balanced pool of items, which suggested measuring the scale in question.

III. The statistical procedure (factor analysis) has been conducted for the purpose of weeding out items that did not belong to the scale in question or that have a great error variance to a number of the study scales. This would help to purify the scale and to establish its reliability through internal consistency. Moreover, this procedure helped the researcher to purify the competitive advantage scale of the study further and to suggest the underlying dimensions of the scale (see below).

These procedures have helped to support the reliability of the study measurement, which consequently reflected positively on the validity of the study measurement.

The following tables will present the results of testing reliability using Cronbach's Alpha for each questionnaire involved in this study.

Table 8.3: Reliability analysis for Top merging questionnaire (TMM)

Study variable	Number of cases	Number of items	Cronbach's Alpha
Culture differences (Cult)	44	14	.875
Procedural Justice (Just)	44	14	.825
Integration approach (Anap)	44	9	.664
Coping programmes (Cop)	44	6	.847
Communication Media (Comm)	44	9	.669
Communication plan (Comp)	44	6	.787
Co-ordination plan (Coop)	44	3	.748
Understanding environment (Unen)	44	12	.901
Organisation coherence (Coh)	44	13	.917
Competitive advantage (Adv)	44	11	.639*
Financial performance before merger (Prfyb)	44	5	.895
Financial performance after merger (Prfya)	44	5	.921
Non-financial performance before merger (Prfxb)	44	3	.774
Non-financial performance after merger (Prfxa)	44	3	.906
Company attitude (Coatt)	4	7	.206**

*Factor analysis has been conducted on a competitive advantage scale, which shows that the scale is not uni-dimensional but three dimensional, as we will show below.

** Factor analysis has been conducted on company attitudes toward mergers, but the results did not show reliable underlying dimensions, as we will show below.

Table 8.3 shows the results of testing reliability for the variables in the survey. The reliability coefficients range from .67 to .92, which fall within the acceptable level. This indicates that the variables in the top merging questionnaires have acceptable reliability, and provides support for the statistical analysis. The exception is with the company attitude scale with a score of .28 and a competitive advantage a scale with score of .64. The reliability of these two scales could be improved by using the factor-analysis technique, as discussed below. Having examined the reliability of the questionnaire instrument, the validity of the instrument will also be tested and enhanced.

8.3.2.1 FACTOR ANALYSIS

i. Competitive advantage scale (ADV)

A factor analysis has been applied for the scale of competitive advantage. This enabled the researcher to discover that the scale involves three latent variables. The results of the factor analysis is as follows:

Table 8.4: Total Variance Explained

	Initial Eigenvalues	Rotation Sums of Squared Loadings				
Component	Total	% of Variance	Cumulative %	Total	% of Variance Cumulative %	
1	3.516	31.967	31.967	2.433	22.122	22.122
2	2.222	20.202	52.169	2.410	21.908	44.030
3	1.333	12.115	64.284	2.228	20.254	64.284
4	.914	8.313	72.597			
5	.817	7.423	80.020			
6	.585	5.316	85.336			
7	.538	4.895	90.231			
8	.353	3.211	93.442			
9	.308	2.801	96.243			
10	.268	2.440	98.684			
11	.145	1.316	100.000			

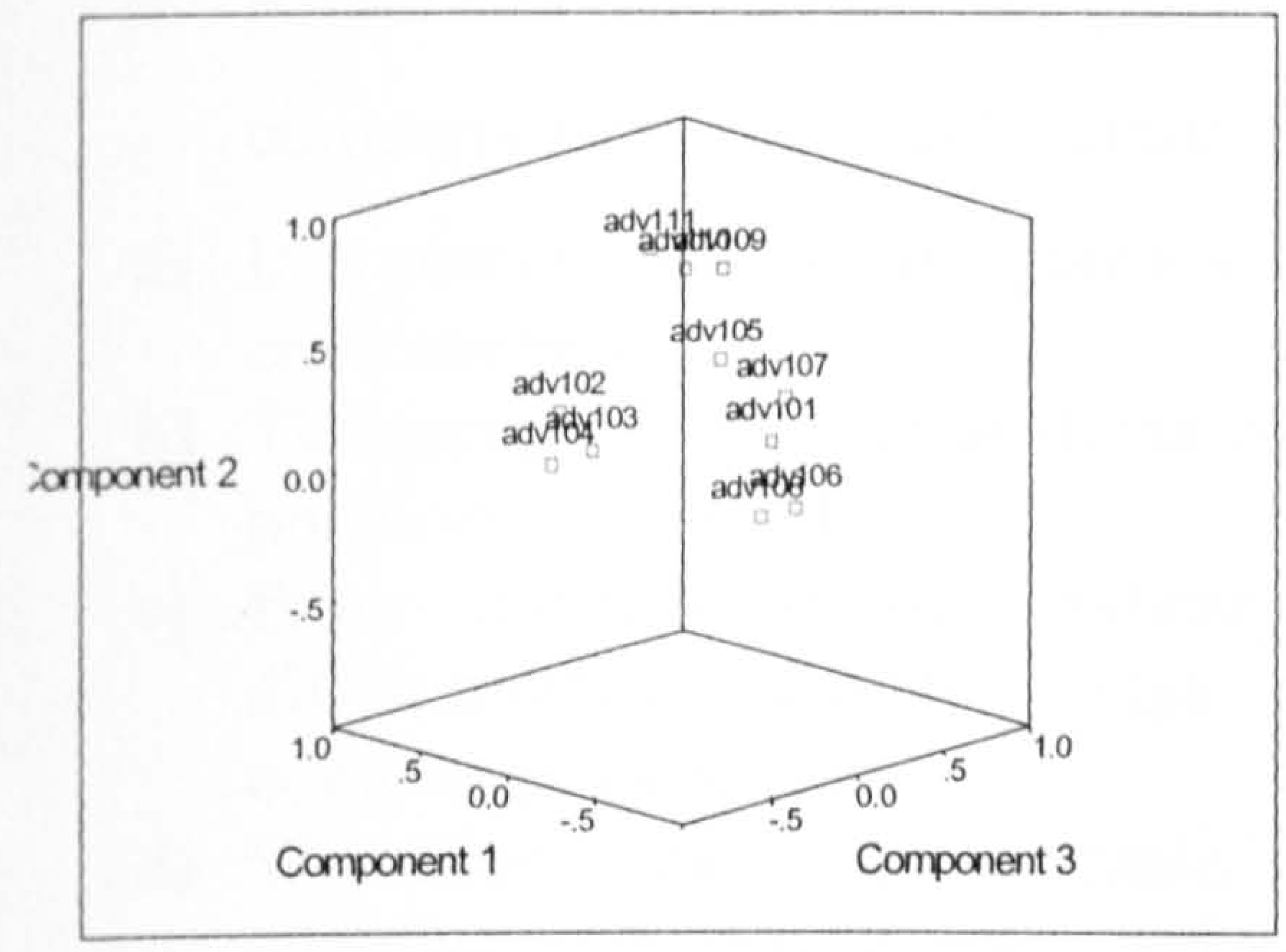
Extraction Method: Principal Component Analysis.

Table 8.5: Rotated Component Matrix

	Component		
	1	2	3
ADV101	.181	-3.999E-02	.690
ADV102	.857	4.105E-02	.156
ADV103	.830	-.129	.313
ADV104	.874	-.157	.113
ADV105	.334	.269	.540
ADV106	6.052E-02	-.287	.710
ADV107	.154	.126	.736
ADV108	7.563E-02	-.292	.516
ADV109	-.226	.833	-4.467E-03
ADV110	-8.621E-02	.820	-7.696E-02
ADV111	.107	.861	-8.473E-02

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 5 iterations.

Figure 8.1: Component plot of competitive advantage (Top-Merging-Management)



The factor analysis output in Table 8.4 show that approximately 22.1% of the total variance is accounted for by the first factor, approximately 21.9% by the second factor, and 20.3% by the third factor and the remaining percentages could be negligible. Consequently, the three factors are responsible for 64.3% of the total variance. Thus, factor-analysis output shows that there is essentially a three-factor structure as a main source of interpreting competitive advantage scale dimensions. In terms of the orthogonal rotated solution in Table 8.5 shown, three items load on (correlate highly with) the first factor (Adv102, Adv103, and Adv204), whilst three items load most strongly on the second factor (Adv109, Adv110, and Avd111). Five items have substantial loading on the third factor (Adv101, Adv105, Adv106, ADV107, and Adv108). In addition to this, from figure 8.1, we can see eleven items clustered around three different groups. Therefore, the three groups of items seem to be factorially distinct. Namely, the factor-analysis output generates three different variables from a competitive advantage scale. For the purpose of providing meaning (label) to each factor, the factor loadings (the items correlated highly with each factor) were scrutinised carefully. This enabled the researcher to give each factor the following labels:

I. Factor1 is symbolised by (AdvH1) and labelled as "differentiation through human resource". This factor involves the following items:
   a) Our competitive advantage in the new company stems from the way we manage our human resources.
   b) Employee's skills and knowledge that are supported by learning-by-doing are the main source of our competitive advantage.
   c) The company's culture that supports innovation and creativity is the main source of our competitive advantage.

II. Factor2 is symbolised by (AdvS1) and labelled as "differentiation through company size". This factor consists of the following items:

a) It is strategically advantageous to our company to be large in today's business environment.
b) The merger would diminish the competition in our industry. This supports our position in the market.
c) Entry barriers to our industry (such as economy of scale, product differentiation, and the huge capital requirements) often impede new companies from entry.
d) We often create and maintain close relationships with our suppliers for attaining high quality inputs and a quick response.
e) The merger supports us against financial institutions, as we get a good service at the appropriate time.

III. Factor3 is symbolised by (AdvG1) and labelled as "differentiation through Government support". This factor involves the following items:

a) Protection and subsidies offered by government are a main source of our competitive advantage.
b) Government development funds provide us with great opportunities to build our competitive advantage.
c) The basic physical infrastructure (such as transportation and communication system) confers a unique competitive advantage.

Reliability coefficient of factor1 (AdvH1)

		Mean	Std Dev	Cases
1.	ADV102	3.4091	.8975	44.0
2.	ADV103	3.6136	.9697	44.0
3.	ADV104	3.4773	.9997	44.0

	ADV102	ADV103	ADV104
ADV102	1.0000		
ADV103	.6401	1.0000	
ADV104	.6327	.7464	1.0000

Reliability Coefficients 3 items

Alpha = .8608 Standardized item alpha = .8606

Reliability coefficient of factor2 (AdvG2)

		Mean	Std Dev	Cases
1.	ADV109	2.8182	1.1668	44.0
2.	ADV110	2.8182	1.1263	44.0
3.	ADV111	3.1591	.8053	44.0

Correlation Matrix

	ADV109	ADV110	ADV111
ADV109	1.0000		
ADV110	.5936	1.0000	
ADV111	.5760	.6480	1.0000

Reliability Coefficients 3 items

Alpha = .8070 Standardized item alpha = .8218

Reliability coefficient of factor3 (AdvS1)

		Mean	Std Dev	Cases
1.	ADV101	3.8864	.7538	44.0
2.	ADV105	3.4318	.8733	44.0
3.	ADV106	3.5455	.7299	44.0
4.	ADV107	3.7727	.8030	44.0
5.	ADV108	3.6364	.7499	44.0

Correlation Matrix

	ADV101	ADV105	ADV106	ADV107	ADV108
ADV101	1.0000				
ADV105	.3942	1.0000			
ADV106	.3266	.2421	1.0000		
ADV107	.3021	.3422	.4545	1.0000	
ADV108	.2955	.0678	.2858	.2844	1.000

N of Cases = 44.0
Reliability Coefficients 5 items

Alpha = .6783 Standardized item alpha = .6813

The reliability coefficients of the three factors that resulted from factor analysis (AdvH, AdvG and AdvS) are (.86), (.81) and (.68) respectively. These coefficients are much higher (especially AdvH and AdvG) than the competitive advantage scale. Therefore, the competitive advantage scale (Adv) is not a single concept or attribute but it involves three distinctive measurements that each has a reliability coefficient much higher than the combined one. This would enhance the reliability of the scale, which in turn, supports the validity of the measurement particularly with regards to content validity.

ii. Company attitude scale (Att)

According to the reliability coefficient of company attitude scale (Att = .21), we can say that this measurement is highly unreliable. In other words, the error component of the scale is very high and produced inconsistency among the items comprised in the scale, which in turn, lead to the unreliability of the scale (Att). For the purposes of improving the reliability of this scale, factor analysis technique has been applied on the scale of company attitude and the results of the analysis is as follows:

Table 8.6: Total Variance Explained

	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.707	21.336	21.336	1.661	20.767	20.767
2	1.533	19.168	40.504	1.534	19.180	39.946
3	1.282	16.019	56.523	1.326	16.577	56.523
4	.940	11.752	68.275			
5	.900	11.245	79.521			
6	.768	9.594	89.115			
7	.506	6.325	95.440			
8	.365	4.560	100.000			

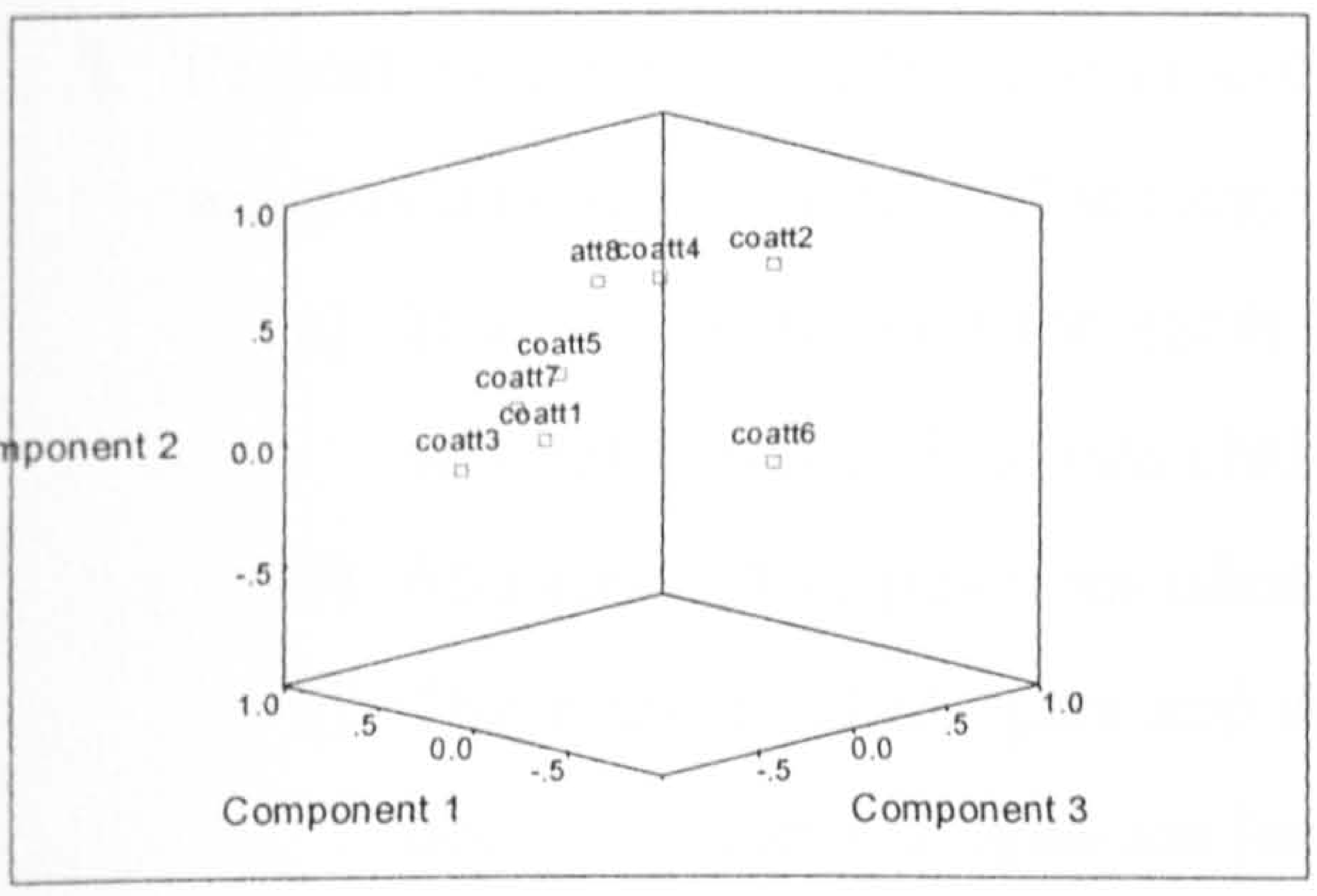
Extraction Method: Principal Component Analysis.

Table 8.7: Rotated Component Matrix

	Component		
	1	2	3
COATT1	.594	-9.316E-	-4.157E-
COATT2	-8.205E-02	.663	.498
COATT3	.482	-8.670E-	-.584
COATT4	-8.383E-02	.725	-.105
COATT5	.626	.163	7.487E-
COATT6	.247	-.284	.835
COATT7	.753	1.899E-02	-1.580E-
COATT8	.206	.668	-.145

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 5 iterations.

Figure 8.2: Component plot of company attitude (Top-Merging-Management)



The factor analysis output (see Table 8.6) shows that around 21% of the total variance is accounted for by the first factor, around 19% by the second factor, and 16.5% by the third factor with the remaining percentage being negligible. Consequently, there are three factors that are responsible for 56.5% of the total variance. Thus, the factor analysis output shows that there is essentially a three-factor structure as a source of interpreting company attitudes toward merger scale dimensions (Att). In terms of the orthogonal rotated solution (see Table 8.7) there is a number of cross loading within the factors, which may prove difficult when interpreting the three factors solution. For instance, Table 8.7 shows that variable Att3 is loaded in factor1 (.59) and factor3 (.50) has a relatively high correlation coefficient. Therefore, the loading decision rules will be based on the correlation coefficients whenever they are higher. Accordingly, three items load on the first factor (Att1, Att5, and Att7), and three items load on the second factor (Att2, Att4, and Att8), whilst two items load on the third factor (Att3 and Att6). However, figure 8.2 shows that the eight items, which includes of the company attitude scale (Att), are clustered around two distinct groups rather than three groups and there is one item (Att6) that is set aside from the others, so it is appropriate to discard this item (Coatt6) from the scale. Moreover, the reliability coefficients suggest that a two-factor structure is more significant and a more reliable solution for the company attitude scale (Att). Therefore, item (Att6) was discarded and item (Att3) is added to factor1 because the correlation coefficient loaded higher on factor1 (.48). Consequently, we can say that the factor-analysis output generated two distinct variables from the company attitude scale (Att). For the purpose of providing meaning (label) to these two factors, the factor loadings (the items correlated highly with each other) were scrutinised carefully. This enabled the researcher to give each factor the following labels:

I. Factor1 is symbolised by (Patt1) and labelled as "supportive attitude toward mergers and acquisitions". This factor consists of the following items:
   a) It is very important for Saudi Companies to pursue merger/acquisition strategies to face business challenges.
   b) Mergers and acquisitions often lead to a monopoly.
   c) The number of mergers and acquisitions in the Saudi market is small because these strategies are ineffective in Saudi Arabia.
   d) In the future, both large and small companies will be acquired or merged with another to achieve success.

II. Factor2 is symbolised by (Barr1) and labelled as "mergers and acquisition barriers in Saudi Arabia". This factor involves the following items:
   a) Saudi companies are often reluctant to pursue merger strategies since they may not have enough experience and the knowledge to conduct such a strategy.
   b) Saudi companies are often reluctant to adopt merger strategies because of the fear that they may lose management control over their companies.
   c) The Infrequency of mergers/acquisitions in Saudi Arabia can be attributed to the unavailability of specialised centres for merger/acquisitions.

Reliability coefficient of factor1 (Patt)

		Mean	Std Dev	Cases
1.	COATT1	4.4091	.5834	44.0
2.	COATT3	3.3636	1.1225	44.0
3.	COATT5	3.4545	1.0665	44.0
4.	COATT7	3.9545	.8056	44.0

Correlation Matrix

	COATT1	COATT3	COATT5	COATT7
COATT1	1.0000			
COATT3	.1937	1.0000		
COATT5	.2175	.0336	1.0000	
COATT7	.1889	.3530	.2682	1.0000

N of Cases = 44.0

Reliability Coefficients 4 items

Alpha = .4762 Standardized item alpha = .5140

Reliability coefficient of factor2 (Barr)

		Mean	Std Dev	Cases
1.	COATT2	2.2727	1.0199	44.0
2.	COATT4	2.5909	.9721	44.0
3.	COATT8	2.5000	1.0230	44.0

Correlation Matrix

	COATT2	COATT4	COATT8
COATT2	1.0000		
COATT4	.3028	1.0000	
COATT8	.2452	.1637	1.0000

N of Cases = 44.0
Reliability Coefficients 3 items

Alpha = .4825 Standardized item alpha = .4827

The reliability coefficients of the two factors, which are produced by factor-analysis solution (Patt ".476" and Barr ".48") are higher than the company attitude scale (.28). However, the reliability coefficients of the two factors are still at an unacceptable level, which may be worrying as a measurement. Thus, these two factors have been used with reservations for measuring the company attitude (Patt) and barriers of mergers in Saudi Arabia (Barr).

Table 8.8 Reliability analysis for non-merging top questionnaire (TMW)

Variable	Number of cases	Number of items	Cronbach's alpha
Culture differences (Cult)	39	14	.89
Precedural justice (Just)	39	13	.81
Coping programme (Cop)	39	6	.67
Communication media (Comm)	39	9	.598*
Communication plan (Comp)	39	6	.76
Co-ordination plan (Coop)	39	3	.79
Understanding environment (Unen)	39	12	.875
Organisation coherence (Coh)	39	12	.83
Competitive advantage (Adv)	39	11	.705**
Current financial performance (Prfyc)	39	5	.89
Financial performance three years ago (Prfyb)	39	5	.857
Current Non-financial performance(Prfxc)	39	3	.73
Non-financial performance three years ago (prfxb)	39	3	.767
Company attitude (Att)	39	8	.17***

* Reliability coefficient of communication media scale can be improved to .69 by removing two items (Comm1 and Comm9).

** Factor analysis has been applied on the competitive advantage scale for the purpose of making it similar to that of Top merging competitive advantage scale, which shows that the scale is not a single dimension and is three dimensions, as we will see below.

*** Factor analysis has been conducted on the company attitude scale for the purpose of improving its reliability coefficient, which is unacceptable at this level (.17).

Table 8.8 shows the results of testing reliability for the variables in the top non-merging questionnaires. The reliability coefficients range between .89 and .67, which lie within the acceptable level of reliability. This indicates that the variables in the top non-merging questionnaire have acceptable reliability, and provides support for the statistical analysis. The exception is with the company attitude scale with a score of (.17). Therefore, the factor-analysis technique applied on this scale for the purpose of revealing latent variables within the scale, would improve the reliability of these variables. Moreover, a communication media scale shows somewhat low reliability (.59), and eliminates two items from the scale (Comm1 and Comm9), which improves the reliability to .69.

8.3.2.2 FACTOR ANALYSIS OF THE TOP MANAGEMENT-NON-MERGING COMPANY MEASURE

i. Competitive advantage scale (adv)

For the purpose of making a competitive advantage scale of the top non-merging questionnaire similar to that of the top-merging questionnaire, a factor-analysis technique has been conducted on the competitive advantage scale. The result of factor analysis is as follows:

Table 8.9: Total Variance Explained

	Initial Eigenvalue			Rotation Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.494	31.760	31.760	3.054	27.760	27.760
2	2.429	22.085	53.844	2.100	19.092	46.851
3	1.247	11.333	65.177	2.016	18.326	65.177
4	.906	8.233	73.410			
5	.751	6.823	80.233			
6	.534	4.858	85.091			
7	.483	4.395	89.486			
8	.471	4.284	93.770			
9	.310	2.815	96.584			
10	.226	2.055	98.640			
11	.150	1.360	100.000			

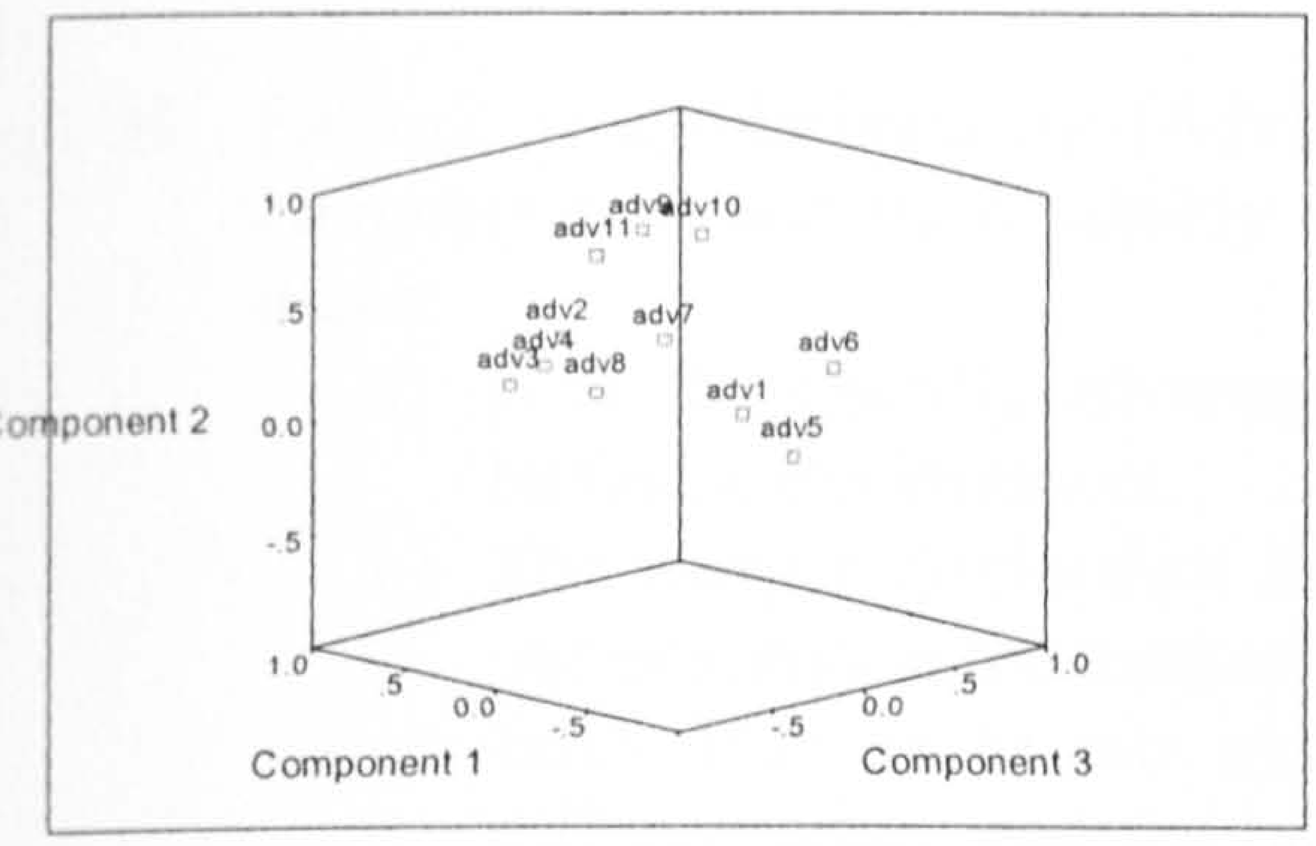
Extraction Method: Principal Component Analysis.

Table 8.10: Rotated Component Matrix

	Component		
	1	2	3
ADV1	.255	-.146	.582
ADV2	.784	.186	.131
ADV3	.882	-1.097E-02	-4.074E-02
ADV4	.833	5.611E-02	9.998E-02
ADV5	6.781E-02	-.305	.682
ADV6	6.177E-02	4.201E-02	.887
ADV7	.564	.147	.485
ADV8	.722	-6.487E-02	.269
ADV9	7.615E-02	.842	-.134
ADV10	-6.561E-02	.817	5.618E-02
ADV11	.207	.738	-.259

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 5 iterations.

Figure 8.3: Components plot of competitive advantage (Top-Non-merging-Management)



The factor-analysis output in Table 8.9 shows that around 27.7% of the total variance is accounted for by the first factor, about 19% by the second factor and 18% by the third factor and the remaining percentages could be negligible. Consequently, the three factors are responsible for around 65% of the total variance of the scale. Thus, factor-analysis output shows that there is essentially a three-factor structure as a main source of interpreting competitive advantage scaled dimensions. However, Table 8.10 shows that there are two cross-loading factors, where item7 (Adv7) loaded strongly on factor 1 as well as factor 3. Figure 8.3, also shows that item 7 is set apart from the three clusters. This would prove difficult when deciding which factor item 7 should be loaded on. Since the purpose of conducting factor analysis is to improve the reliability of the factors emerge from competitive scale, the loading rule will be based on the reliability coefficient whenever it is higher. Consequently, three items are strongly loaded on the first factor (Adv102, Adv103, and Adv104), three items have been substantially loaded on to the second factor (Adv109, Adv110, and Adv111), and five items have been loaded on to the third factor (Adv101, Adv105, Adv106, adv107, and adv108). Moreover, figure 8.3 shows that these eleven items clustered around three distinct groups and item 7 was set aside from the rest. In other words, factor-analysis output brought about three distinct variables from the competitive advantage scale. The label and reliability of each of these variables are as follows:

I. Factor1 is symbolised by AdvH2 and labelled as "differentiation through human resource". Its reliability is .85. This factor consists of the following items:

   a) Our competitive advantage in the new company stems from the way we manage our human resources.
   b) Employee's skills and knowledge are supported by learning-by-doing are the main source of our competitive advantage.

c) The company culture that supports innovation and creativity is the main source of our competitive advantage.

II. Factor2 is symbolised by (AdvS2) and labelled as differentiation through company size and its reliability is (.72). This factor involves the following items:
   a) It is strategically advantageous to our company to be large in today business environment.
   b) The merger diminished the competition in our industry and supports our position in the market.
   c) Entry barriers to our industry (such as economy of scale, product differentiation, and the huge capital requirements) often impede new companies from entry.
   d) We often create and maintain close relationship with our suppliers for gaining high quality inputs and a quick response.
   e) The merger supports us against financial institutions, as we receive a good service at an appropriate time.

III. Factor3 is symbolised by (AdvG2) and labelled as "differentiation through government support" and its reliability is (.74). This factor consists of the following items:
   a) Protection and subsidies offered by government are a main source of our competitive advantage.
   b) Government development funds provide us with great opportunities to build our competitive advantage.
   c) The basic physical infrastructure (such as transportation and communication system) confers a unique competitive advantage.

N.B. we have loaded item8 and item7 to factor3 because this provides the highest possible reliability coefficient to each of these three factors, and have also added the items adv8 and Adv7 to factor3, consistent with that of the competitive advantage scale in the top-merging questionnaire (as we did earlier), which would support the process of comparison.

ii. Company attitude scale (Att)

The reliability coefficient of company attitude scale (Att) is .17 and is highly unreliable. In other words, the error component of the scale (Att) is very high which brought about the inconsistency among the items comprised in the scale, which in turn, leads to the unreliability of the scale. For the purpose of improving the reliability coefficient, a factor-analysis technique was conducted to reveal the latent variables within the scale each had more reliability than the scale as a whole. The results of the factor analysis is as follows:

Table 8.11: Total Variance Explained

	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.981	37.259	37.259	2.947	36.840	36.840
2	1.452	18.144	55.404	1.337	16.715	53.555
3	1.081	13.509	68.913	1.229	15.358	68.913
4	.851	10.638	79.550			
5	.598	7.473	87.023			
6	.458	5.719	92.742			
7	.343	4.292	97.034			
8	.237	2.966	100.000			

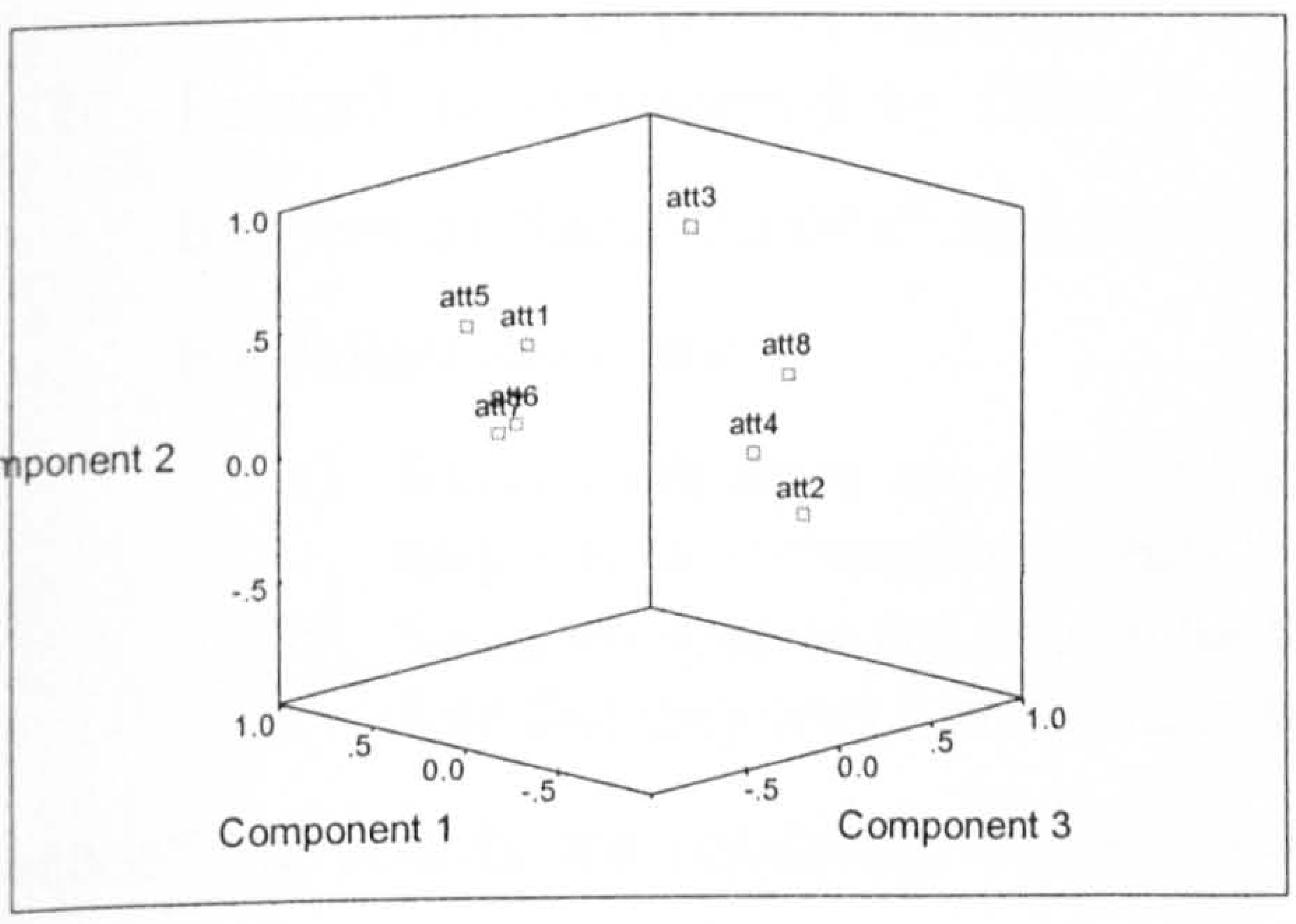
Extraction Method: Principal Component Analysis.

Table 8.12: Rotated Component Matrix

	Component		
	1	2	3
ATT1	.648	.323	-1.698E-
ATT2	-.729	-.135	8.593E-
ATT3	-.135	.932	8.121E-
ATT4	-.644	.138	-9.009E-
ATT5	.414	.554	-.581
ATT6	.814	-5.432E-	8.935E-
ATT7	.832	-7.778E-	1.942E-
ATT8	.192	.106	.928

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 6 iterations.

Figure 8.4: Component plot of company attitude (Top-Non-merging-Management)



The factor analysis output in Table 8.11 shows that around 39% of the total variance is accounted for by the first factor, about 16.7% is accounted for by the second factor, and 15% is accounted for by the third factor. Consequently, the three factors are responsible for approximately 69% of the total variance. Thus, the factor analysis output shows that there is a three-factor structure that can be used as a source of interpreting the company attitude scale (Att) dimensions. However, the reliability analysis of these three factors suggested that two-factor structure is more meaningful and more reliable than the three-factor solution (as we will see below).

From Table 8.11 we can ascertain that six items loaded strongly on factor1 (Att1, Att2, Att4, Att5, Att6, and Att7), two of which had a negative sign (Att2 and Att4). Consequently, there are only two items that remain for the other factors (Att3 and Att8). Moreover, items5 loads strongly to all of the three factors (cross-loading). Furthermore, figure 8.4 shows that there is only one cluster and the others are scattered around the axes without clustering. This may prove to be difficult when interpreting the three-factor solution. Therefore, the loading rule of these variables would be based on the reliability coefficients whenever they are higher. Based on this rule, we come up with loading items Att2 and Att4 to factor2 and items Att1, Att5, Att6, and Att7 to factor1. The label and reliability of each of the two factors are as follows:

I. Factor1 is symbolised by (Patt2) and labelled as "positive attitude toward mergers and acquisitions" and its reliability is .73. This factor consist of the following items:

   a) It is very important for Saudi Companies to pursue merger/acquisition strategies to face business challenges.
   b) The number of mergers and acquisitions in the Saudi market is small because these strategies are ineffective in Saudi Arabia.
   c) Small organisations must recognise that they are not self-sufficient.
   d) In the future, both large and small companies will be acquired or merged with others to achieve success.

II. Factor2 is symbolised by (Barr2) and labelled as "mergers and acquisition barriers in Saudi Arabia" and its reliability is (.67). This factor comprises of the following items:

   a) Saudi companies are often reluctant to pursue merger strategies since they may not have enough experience and knowledge to conduct such a strategy.
   b) Saudi companies are often reluctant to adopt merger strategies because of the fear that they may lose management control over their companies.

Each of the two-factor reliability coefficients (.73 and .67) is much higher than the aggregate scale (.17).

N.B. Items Att3 and Att8 are removed from any of the determined factors since each of the two-factor reliability coefficients decrease whenever these items are added to any of them.

Table 8.13: Reliability analysis for Middle merging questionnaire (MMM)

Variable	Number of cases	Number of items	Cronbach's Alpha
Employee stress (strs)	66	14	.89
Culture difference (Cult)	66	14	.85
Procedural justice (Just)	66	14	.83
Coping programmes (Cop)	66	6	.776
Communication media (Comm)	66	9	.65
Communication plan (Comp)	66	6	.74
Co-ordination plan (Coop)	66	3	.69
Understanding environment (Unen)	66	12	.88
Organisation coherence (Coh)	66	13	.855
Commitment and trust (Ctrs)	66	9	.90
Financial performance before merger (prfyb)	66	5	.84
Financial performance after merger (prfya)	66	5	.87
Non-financial performance before merger (prfxb)	66	3	.79
Non-financial performance before merger (prfxb)	66	3	.75
Company attitude (Att)	66	8	.12*

* The reliability of the company attitude scale is very low, which makes it unacceptable as a measurement of such a scale, so factor analysis is conducted on this scale for the purpose of revealing latent variables within the scale and are more reliable.

Table 8.13 shows the results of testing the reliability for the variables in the Middle-merging questionnaires. The reliability coefficients of each of the involved variables range between .65 to .90, which lay within the acceptable level. This indicates that the variable tests in the Middle-merging questionnaire have acceptable reliability, and provides support for the statistical analysis. The exception is with the company attitude scale (Att) with a score of .12, which is very low as a measurement of such an attribute (property).

8.3.2.3 FACTOR ANALYSIS FOR MIDDLE MANAGEMENT-MERGING COMPANY MEASURE

i. Company attitude scale (Att)

The factor-analysis technique applied on this scale has helped to improve the reliability of the factors that were derived from the scale. The results of the factor analysis is as follows:

Table 8.14: Total Variance Explained

	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.258	28.223	28.223	2.166	27.070	27.070
2	1.623	20.290	48.514	1.715	21.444	48.514
3	1.187	14.833	63.347			
4	.860	10.753	74.100			
5	.658	8.227	82.327			
6	.527	6.592	88.918			
7	.502	6.279	95.197			
8	.384	4.803	100.000			

Extraction Method: Principal Component Analysis.

Table 8.15: Rotated Component Matrix

	Component	
	1	2
COATT1	.706	.101
COATT2	-.424	.617
COATT3	.195	.598
COATT4	-.394	.421
COATT5	.461	.381
COATT6	.738	-.115
COATT7	.732	-7.930E-
COATT8	2.120E-	-.790

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 3 iterations.

Figure 8.5: Component plot of company attitude (Middle-Merging-Management)

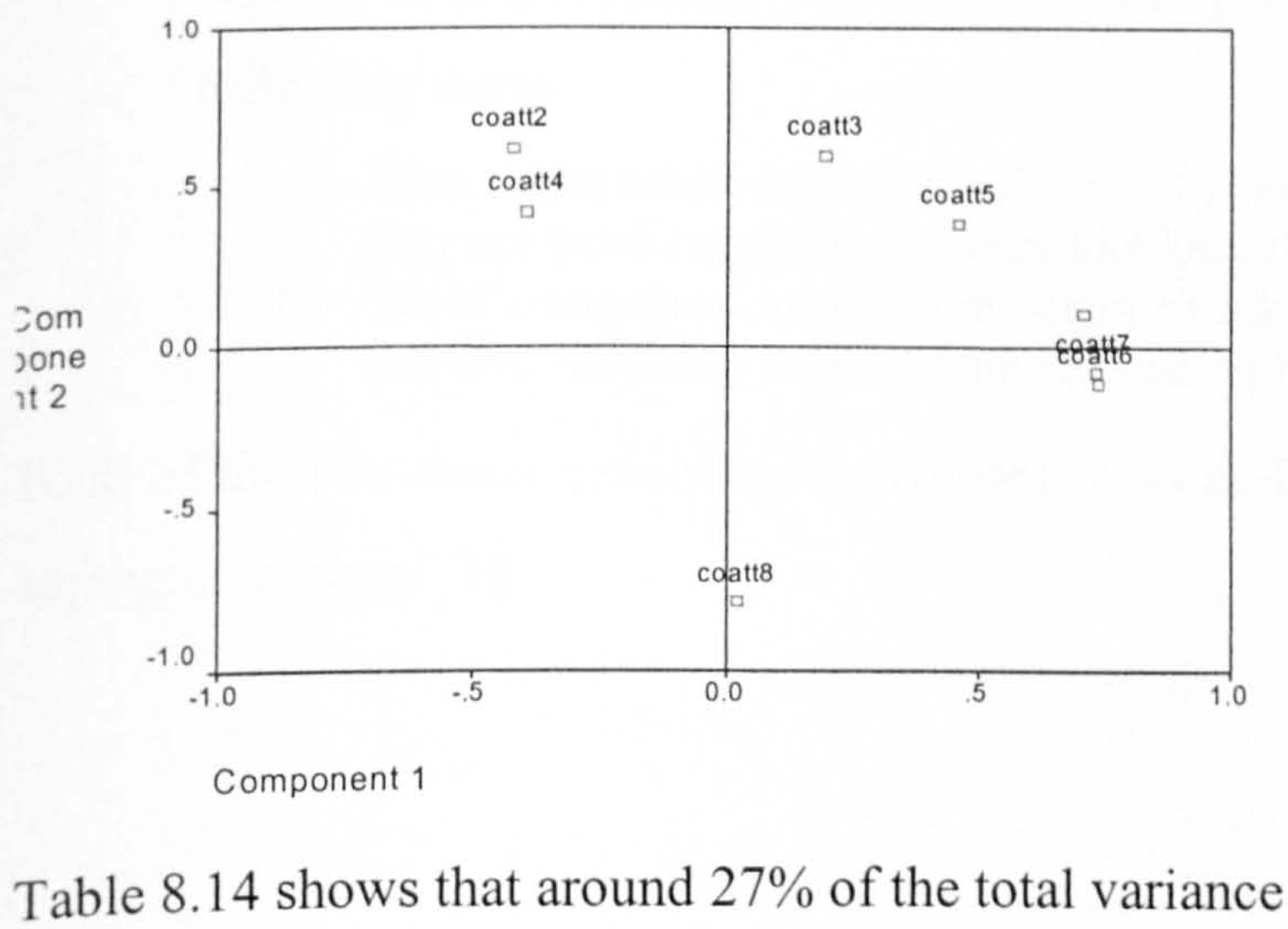


Table 8.14 shows that around 27% of the total variance is accounted for by the first factor, and around 21.4% is accounted for by the second factor. Consequently these two factors are responsible for about 48.4% of the total variance. Thus factor analysis

output shows that there are two-factor solutions as a main source of interpretation in the company attitude scale dimensions.

Table 8.15 shows that there is number of cross-loadings within the two factors, which may prove difficult in interpreting the two-factor solution. For example items 2, 4 and 5 loaded in factor1 and factor2 with moderate correlation. Therefore, the loading decision rule will be based on the correlation and reliability coefficients whenever they are higher. Moreover, figure 8.5 shows that item3 and item8 scatter around the diagram without any indication of clustering with any of the two groups, which might disturb the two groups when they added to any of them. Based on the Figure 8.4 and Table 8.15 as well as a reliability analysis, we can come up with loading items Att1, Att5, Att6 and Att7 to factor1 whilst items att2 and att4 load to factor2. Item3 and item8 were removed from both of the two factors.

The label and reliability of each of the two factors are as follow:

I. Factor1 is symbolised by (Patt3) and labelled as "positive attitude toward mergers and acquisitions" and its reliability is .64. This factor involves the following items:

a) It is very important for Saudi Companies to pursue merger/acquisition strategies to face business challenges.
b) The number of mergers and acquisitions in the Saudi market is small because these strategies are ineffective in Saudi Arabia.
c) Small organisations must recognise that they are not self-sufficient.
d) In the future, both large and small companies will be acquired or merged with others to achieve success.

II. Factor2 is symbolised by (Barr3) and labelled as "mergers and acquisition barriers in Saudi Arabia" and its reliability is (.60). This factor consists of the following items:

a) Saudi companies are often reluctant to pursue merger strategies since they may not have enough experience and knowledge to conduct such a strategy.
b) Saudi companies are often reluctant to adopt merger strategies because they fear that they may lose management control over their companies

Each of the two-factor reliability coefficients (.64 and .60) are much higher than the aggregate scale of .12.

Table 8.16: Reliability analysis for Middle non-merging questionnaire (MMW)

Variable	Number of cases	Number of items	Cronbach's Alpha
Employee stress (Strs)	62	14	.885
Culture difference (Cult)	62	14	.93
Procedural justice (Just)	62	12	.89
Coping programmes (Cop)	62	6	.87
Communication media (Comm)	62	9	.78
Communication plan (Comp)	62	6	.756
Co-ordination plan (Coop)	62	3	.81
Understanding environment (Unen)	62	12	.91
Organisation coherence (Coh)	62	12	.885
Commitment and trust (Ctrs)	62	9	.93
Current Financial performance (prfyc)	62	3	.886
Financial performance three years ago (prfyb)	62	3	.886
Current non-Financial performance (prfxc)	62	3	.84
Current non-financial performance three years ago	62	3	.76
Company attitude (Att)	62	8	.11*

* The reliability of company attitude scale is very low, which make it unacceptable at all as a measurement of such scale, so factor analysis applied on this scale for the purpose of revealing latent variables within the scale that are more reliable.

Table 8.16 shows the results of testing reliability to the variables in the Middle non-merging questionnaire. The reliability coefficients of each of the variables range between .93 to .756, which lay within the acceptable level. This indicates the variable tests in the Middle non-merging questionnaire have acceptable reliability, and provides support for the statistical analysis. The exception is with the company attitude scale (Att) with score of .11, which is very low as a measurement of such an attribute (property).

8.3.2.4 FACTOR ANALYSIS FOR MIDDLE MANAGEMENT-NON-MERGING COMPANY MEASURE

i. Company attitude scale (Att)

The factor-analysis technique applied on this scale, helped to improve the reliability of the factors that were derived from the scale. The results of factor analysis are as follows:

Table 8.17: Total Variance Explained

	Initial Eigenvalues			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.974	37.171	37.171	2.689	33.611	33.611
2	1.598	19.974	57.145	1.883	23.533	57.145
3	1.055	13.193	70.338			
4	.650	8.126	78.464			
5	.562	7.029	85.493			
6	.489	6.117	91.610			
7	.396	4.955	96.566			
8	.275	3.434	100.000			

Extraction Method: Principal Component Analysis.

Table 8.18: Rotated Component Matrix

	Component	
	1	2
ATT1	.806	3.111E-02
ATT2	-.701	.106
ATT3	.403	.565
ATT4	-.294	.711
ATT5	7.175E-02	.667
ATT6	.708	-.478
ATT7	.799	3.812E-03
ATT8	.392	-.611

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 3 iterations.

Figure 8.6: Component plot of company attitude (Middle-Non-merging-Management)

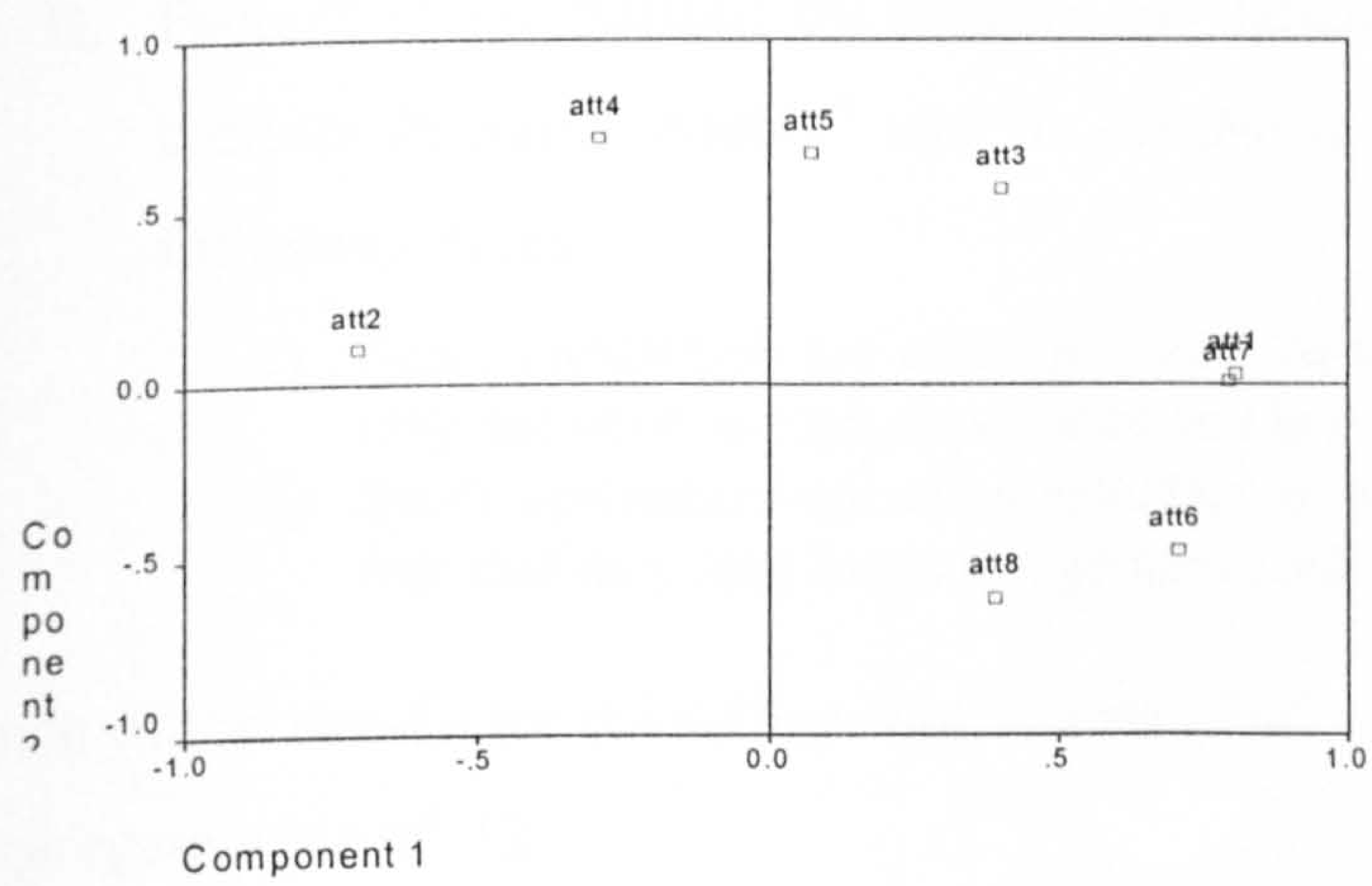


Table 8. 17 shows that around 33.6% of the total variance is accounted for by the first factor, and around 23.5% is accounted for by the second factor. Consequently these two factors are responsible for approximately 57% of the total variance. Thus factor

analysis output shows that there is a two-factor solution as a main source of interpretation of the company attitude scale dimensions.

Table 8.18 shows that there is number of cross-loadings within the two factors, which may prove difficult in interpreting the two-factor solution. For example items 3, 6, 8 loaded in factor1 and factor2 with moderate correlation. Therefore, the loading decision rule will be based on the correlation and reliability coefficients whenever they are higher. Moreover, figure 8.6 shows that item3 and item5 scatter around the diagram without any indication of clustering to any of the two groups, which might disturb these two groups when they are added to any of them. Based on the Figure 8.6 and what Table 8.18 signifies as well as the reliability analysis, we can come up with loading items Att1, Att6, Att7, and Att8 to factor1 while items Att2 and Att4 load to factor2. Item3 and item5 were removed from both of the two factors.

The label and reliability of each of the two factors are as follow:

I. Factor1 is symbolised by (Patt4) and labelled as "supportive attitude toward mergers and acquisitions" and its reliability is .746. This factor consists of the following items:

   a) It is very important for Saudi Companies to pursue merger/acquisition strategies to face business challenges.
   b) The number of mergers and acquisitions in the Saudi market is small because these strategies are ineffective in Saudi Arabia.
   c) Small organisations must recognise that they are not self-sufficient.
   d) In the future, both large and small companies will be acquired or merged with other to achieve success.

II. Factor2 is symbolised by (Barr4) and labelled as "mergers and acquisition barriers in Saudi Arabia" and its reliability is .48. This factor includes the following items:

   a) Saudi companies are often reluctant to pursue merger strategies since they may not have enough experience and knowledge to conduct such a strategy.
   b) Saudi companies are often reluctant to adopt merger strategies because the fear that they may lose management control over their companies

Each of the two-factor reliability coefficients (.746 and .48) are much higher than the aggregate scale of .12.

If we check the reliability coefficients in the four questionnaires, we would notice that there are consistent reliability coefficients of the same (similar) scales in each of these questionnaires. For example, culture difference scale (Cult) has reliability coefficients ranging between .85-.93 in the four questionnaires. Furthermore, the understanding environment (Unen) and organisation coherence (Coh) scales have reliability coefficients ranging between .88-.91 and .83-.91 respectively. Also, procedural justice (Just) and co-ordination plan (Coop) scales have reliability coefficients ranging between .81-.89 and .69-.81 respectively. Moreover, financial performance before and after mergers (Prfyb and Prfya) have reliability coefficients ranging between .85-.90. Finally, communication media (Comm) and communication plan scales (Comp) have reliability coefficients range between .65-.78 and .75-.79 respectively. We can notice from discussion above that there are high reliability scales such as Cult, Unen, Perfya, Perfyb and Coh. Moreover, there are moderate reliability scales such as Just, Cop, comp, coop, prfxa, prfxb. Furthermore, there are acceptable reliability scales such as Comm, Advs, Anap. Finally, there is only one scale that is unacceptable as a measurement for what it has been designed for and is company attitude (Att). Factor-analysis has been applied on this scale for the purpose of revealing latent variables, which are more reliable (as discuss above).

Therefore, the results of reliability analysis of the four study questionnaires signify that there is a stability of the scales that were designed for testing the study main variables as the similar (the same) scales of these questionnaires result in consistent reliability coefficients (as we can see above). Consequently, this provides evidence of the stability and consistency of the scales that were used in the four questionnaires. Accordingly these results support the validity of these study measurements, particularly content validity.

We can recall that the evidence of the study validity was proven subjectively in the previous section in this chapter (construct validity, predictive validity and sampling validity). In addition to this, the evidence derived from the stability and consistency of the scales that were used in the study questionnaires has already been proven above. Thus we can say, with some confidence, that the study measurements have good validity and reliability that are appropriate for use in statistical analysis. In other words, the findings that resulted from such measurements would be used (supposed) to test what these measures were designed to be measured.

8.4 DESCRIPTIVE STATISTICS

A number of questions within the last section of the questionnaire were asked to identify some of the company's and manager's characteristics (merging and non-merging companies). The discussion of such characteristics will provide the reader with a better understanding of the detailed analysis later. It is also important for readers to have (beforehand) a general view of the characteristics of the companies and managers investigated in this study. Moreover, these characteristics would provide evidence of the degree of similarity between investigated merging and non-merging companies in some criteria (industry, size, and legal form) that were assumed to be similar for the purpose of comparison.

8.4.1 COMPANY CHARACTERISTICS

To analyse the characteristics of the companies involved in study (Merging and non-merging companies), both frequency distribution and percentage were used. Furthermore, Mann-Whitney U test for two unrelated test was utilised to examine the degree of similarity between merging and non-merging companies on the assumed criteria (size, industry and legal form).

Table 8.19: Characteristics of the companies involved

1. Legal form

	merging		non-merging	
	Freq.	%	Freq.	%
Joint stock	13	29.5	14	35.9
Partnership	3	6.8	2	5.1
Limited partnership	8	18.2	5	12.2
Limited liability	20	45.5	18	46.2
Total	44	100	39	100

2. **Industry**

	Merging		Non-merging	
	Freq	%	Freq	%
Service	14	31.8	12	30.8
Oil	9	20.5	8	20.5
Contract and trade	11	25.0	9	23.1
Manufacturing	10	22.2	10	25.6
Total	44	100	39	100

3. **Company size**

The number of employees measured the size of companies in this study.

Number of employees	Merging		Non-merging	
	Freq	%	Freq	%

Continue Table 8.19

	Merging Freq	Merging %	Non-merging Freq	Non-merging %
Less than 100	9	20.5	5	12.8
100-500	14	31.8	10	25.6
501-1000	7	15.9	8	20.5
1001-1500	8	18.2	8	20.5
1501-3000	4	9.1	6	15.4
3001-10000	1	2.3	1	2.6
More than 10000	1	2.3	1	2.6
Total	44	100	39	100

4. Partnership with Government or foreign company:

	Merging Freq	Merging %	non-merging Freq	non-merging %
Yes	17	38.6	16	41
No	27	61.4	23	59

A)- Activities with Government	Freq	%	Freq	%
00%	33	75	28	71.2
Less than 10%	2	4.5	--	--
10-20%	1	2.3	2	5.1
21-35%	--	--	1	2.6
36-50%	2	4.5	5	12.8
51-75%	3	6.8	3	7.7
100% Government	3	6.8	--	--
Total	44	100	39	100

B)- Activities with foreign companies	Freq	%	Freq	%
00%	31	70.5	29	74
less than 10%	2	4.5	--	--
10-20%	1	2.3	--	--
21-35%	3	6.8	3	7.7
36-50%	4	9.1	7	17.9
More than 50%	3	6.8	--	--
Total	44	100	39	100

5. Merger type

	Freq	%
Acquisition	15	34.1
Horizontal merger	24	54.5
Vertical merger	5	11.4
Total	44	100

To prove the similarity of merging and non-merging companies; as to the criteria that are assumed (legal form, industry, company size, and activity with government or foreign company), the Mann-Whitney test was used and the results of the test are as follows:

Table 8.20: Test similarity between merging and non-merging companies

The criteria	Mann-Whitney U	Z	Asymp. Sig. (Two taled)
Legal form	832.000	-.255	.799
Industry	819.000	-.368	.713
Company size	734.000	-1.158	.247
Partnership	806.500	-.552	.581
With government	849.000	-.106	.916
With foreign	819.000	-.452	.651

The output of the Mann-Whitney test in (Table 8.20) shows that the Z statistic is not significant (that is, pValue is greater than .05) to all of the criteria assumed (legal form, industry etc.). Therefore, there is no statistical difference between merging and non-merging companies with regard to the criteria. In other words, based on these results, we can say that the investigated merging companies (experimental group) are similar to those of non-merging companies (comparison group) with respect to the criteria.

Accordingly, the comparisons between these two groups could be valid as we compare two similar groups with the criteria used.

The findings, as illustrated in table 8.19 section 1, show that around 75% of the companies pursued merger or acquisition strategies are limited liability and stock companies, and 25% are sole-partnership and limited partnership. We know that sole-partnership and limited partnership are often family companies. Moreover, family companies represent about 90% of the total companies in Saudi Arabia. Therefore, we could conclude that family companies in Saudi Arabia are one of the barriers of mergers and acquisitions in Saudi context. Table 8.19, section 2, shows that around 32% of the companies involved in merger or acquisition operate in the service industry (finance, retailing, professional services), 25% operate in contracting industry, 22% manufacturing, and 20% in the oil industry. We can see that the leading industry, which the majority of mergers and acquisition occur, is the service industry. Moreover, contracting industries have a high rate of mergers (25%) in the Saudi context too (so these can be represented as an industry).

Table 8.19, section 3 displays the merging company size before the merger. The study sample could be divided into the following three sizes:

Small size; less than 100 employees

Medium size; 100-1500 employees

Large size; more than 1500 employees

Accordingly, the findings signify that around 20% of the merging companies are small ones, 66% are medium size companies, and 14% are large companies. We can also notice that 86% of the merging companies are small and medium size. This is because the majority of the companies are small and medium sized in Saudi Arabia. Even if the majority of the companies that operate in the Saudi market are small, only 20% of the merging companies are small ones. This could be attributed to fact that small companies are family-owned companies, and are often reluctant to pursue such large-scale strategy.

Merging firms, which have partnerships with either the government or foreign companies, are another factor that has been investigated in this study. Table 8.19 shows that seventeen merging companies (38.6%) have partnerships with either the government or foreign companies. Nine merging companies (20%) have more than 50% of their activities involved with either the government or foreign companies, and six merging companies (13.6%) have less than 20% of their activities shared with either the government or foreign companies.

Table 8.19 shows that twenty-four merging cases (54.5%) are horizontal mergers, and fifteen merging cases (34%) are acquisitions. This could indicate that the majority of merging cases that occurred in Saudi Arabia would involve a upheaval restructuring of the two merging companies as in the case of horizontal mergers as well as acquisitions (acquired companies). Upheaval restructuring would entail large-scale layoffs, culture shocks and large changes in systems and programmes. This study concentrated on how to manage such issues effectively.

8.4.2 MANAGERIAL CHARACTERISTICS

To analyse the characteristics of the managers involved in this study, frequency distribution and percentages were also used. Table 8.21 displays the characteristics of the executives and Table 8.22 displays the characteristics of the middle managers. The questions that have been asked about the executives' characteristics will be discussed in this section as follows:

One question was asked about the time a manager has spent in his organisation. As Table 8.21 shows, executives (owners) have a great deal of experience in their companies. 59% of the respondents have more than 10 years experience; 32% of the respondents have between 5 to 10 years of working experience; and only 9% of the respondents have less than 5 years working experience in their organisation.

Another question was asked about the experience that an executive had in the same field of work in his current organisation. The findings, as shown in Table 8.21, indicate that the executives have very good experience in the field of their work. 82% of the respondents have above average experience, 13.5% have average experience, and only 4.5% have no experience.

Table 8.21: Managerial Characteristics (Executives and Owner)

1- Respondent position	Merging		non-merging	
	Freq.	%	Freq.	%
Executive (owner)	44	40	39	38.6
Middle manager	66	60	62	61.4
	-------	--------	--------	---------
Total	110	100	101	100

2- Times managers spend in their companies	Freq	%	Freq	%
Less than 5 yr	4	9.1	6	15.4
5-10	14	31.8	10	25.6
11-15	11	25.0	8	20.5
16-20	9	20.5	7	17.9
21-26	4	9.1	8	20.5
More than 25yr	2	4.5	---	---

3- Manager' experience Level:	Freq	%	Freq	%
Above average	36	81.8	31	79.5
Average	6	13.6	7	17.9
No experience	2	4.5	1	2.6

The characteristics of middle managers participated in this study were analysed as follows:

One question was asked about the time a middle manager had spent in his organisation. As Table 8.22 shows, middle managers have a great deal of experience in their companies. Fifty-seven middle managers (86.5%) out of sixty-six of the respondents have spent more than five years in their companies and only nine respondents (13.5%) have spent less than five years. With regards to the level of experience that middle managers have in the activity where their companies operate in. The middle managers have good experience; 77% of the respondents have above average experience and 23% have average experience, (there was no respondent had no experience). With regards to the question of nationality as Table 8.22 shows; Forty (60.6%) respondents are Saudis and twenty-six (39.4%) respondents from other nationalities (twenty-four respondents are Arabs, one Indian, and one American).

Table 8.22: Managerial Characteristics (Middle managers)

1- Times managers Spent in their Companies	Merging		Non-merging	
	Freq	%	Freq	%
Less than 5 yr	9	13.6	13	21
5-10 yr	20	30.3	18	29
11-15 yr	21	31.8	13	21
16-20 yr	10	15.2	11	17.7
21-25 yr	6	9.1	7	11.3
2- managers' experience level:	Freq	%	Freq	%
Above average	51	77.3	53	85.5
Average	15	22.7	8	12.9
No experience	--	---	1	1.6
3- Nationality	Freq	%	Freq	%
Saudis	40	60.6	42	67.7
Others	26	39.4	20	32.3

To examine the degree of similarity between merging and non-merging companies as to the managerial characteristics of those who participated in this study (Executives and Middle managers), the Mann-Whitney test was used and the results were as follows:

Table 8.23: Test the similarity between merging and non-merging companies

	Mann-Whitney U	Z	Asymp. Sig. (Two tailed)
Executive Time spend in their companies	836.500	-.201	.841
Their experience level	808.000	-.665	.506
Middle manager Time spend in their companies	1960.00	-.422	.673
Their experience level	1885.5	-1.131	.258

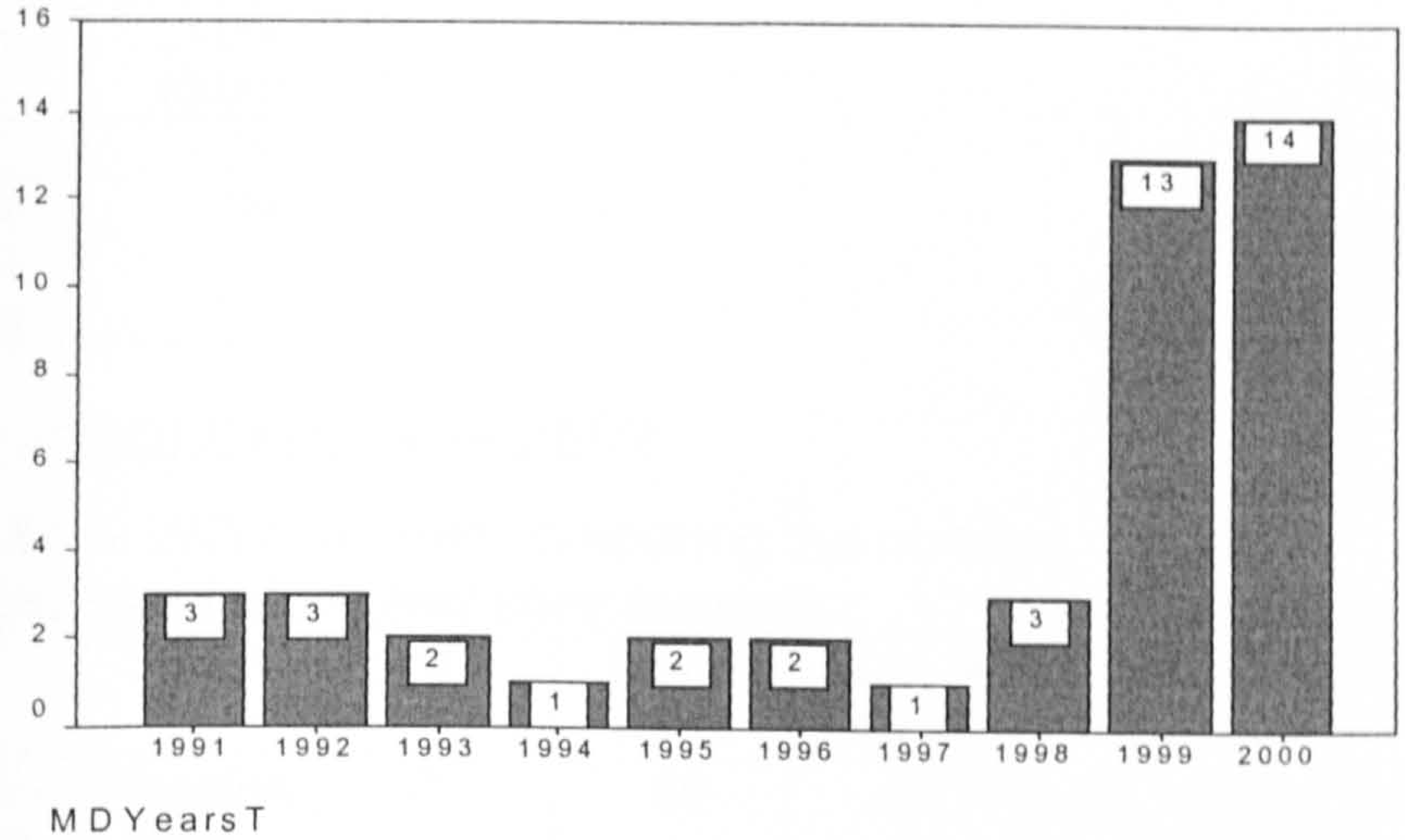
The output of the Mann-Whitney test shows in Table 8.23, that the Z statistic is not significant (that is, pValue is greater than .05) as to the managerial characteristics used in this study (Experience). Therefore, there is no statistical difference between merging and non-merging executives/middle managers' characteristics. In other words, based on these results, we can say that the executive/middle managers' characteristics in merging companies (experimental group) are similar to those of non-merging companies (comparison group).

Accordingly, the comparisons between these two groups could be valid as the participants (Executives/middle managers) in the two groups have similar characteristics.

8.4.3 MERGER TREND IN SAUDI ARABIA

The trend of the mergers/acquisition in Saudi Arabia can be clarified by Figure 8.7 in which it shows that thirty merger cases (68%) have occurred during the three years (1998-2000) and only thirteen merger cases (32%) have occurred through the seven years (1991-1997). Six out of the thirteen merger cases occurred in 1991 and 1992, thirteen out of thirty merger cases have occurred in 1999 and fourteen occurred in 2000. This signifies that the mergers trend in Saudi Arabia can be divided into two stages:

Figure 8.7: Merger trend in Saudi Arabia



The first stage occurred through 1991-1992 and the second stage occurred during 1998-2000.

The first stage could be attributed to the Kuwait crisis (Gulf War) and the second trend could be accounted for by the intention of the Saudi government to join the World Trade Organisation (WTO), which was announced in 1997.

8.4.4 FINAL REMARK REGARDING THE DESCRIPTIVE DATA

One question was asked for the purpose of ensuring that respondents were taking the questionnaire seriously. This question asked the respondents to identify the number of employees in their companies before and after merger. It is assumed that the number of employees would be greater after mergers than before. To examine if there was a difference in size before and after the merger, the wilcoxon test for two related samples was used, and the results are as follows

8.4.4.1 TOP MANAGEMENT

Table 8.24: Wilcoxon test comparing the number of employees before and after mergers

		N	Mean Rank	Sum of Ranks
EMPA - EMPB	Negative Ranks	0*	.00	.00
	Positive Ranks	38**	19.50	741.00
	Ties	6***		
	Total	44		

* EMPA < EMPB
** EMPA > EMPB
*** EMPB = EMPA

Test Statistics

	EMPA - EMPB*
Z	-6.091
Asymp. Sig. (2-tailed)	.000

8.4.4.2 MIDDLE MANAGEMENT

Table 8.25: Wilcoxon test comparing the number of employees before and after mergers

		N	Mean Rank	Sum of Ranks
EMPA - EMPB	Negative Ranks	0*	.00	.00
	Positive Ranks	53**	27.00	1431.00
	Ties	13***		
	Total	66		

* EMPA < EMPB
** EMPA > EMPB
*** EMPB = EMPA

Test Statistics

	EMPA - EMPB*
Z	-7.100
Asymp. Sig. (2-tailed)	.000

* EMPA stands for the number of employees after mergers, AMPB denotes to the number of employees before mergers.

The findings, in Table 8.24, display the number of negative, positive and zero (ties) differences. There are thirty-eight positive, six ties (zero) and zero negative differences. The Z statistic is very significant (that is pValue=.000, which is much less than .05). Therefore, there is a significant difference in the size of the companies (number of employees) before and after the mergers. In addition to this, the differences are positive, which indicates that the size of the companies were greater after the mergers. Moreover, Table 8.25 shows that there are fifty-three positive, thirteen ties (zero) and zero negative differences. The Z statistic is very significant (that is pValue= .000, which is much less than .05). Thus, there is statistical difference in the size of the companies before and after the mergers. Furthermore, in the two group samples (executives and middle managers) no negative differences have been found. This indicates that there are no respondents who answered that the number of employees before the mergers was greater than after the mergers. Accordingly the respondents' (executives and middle managers) answers were logical and would signify that they gave their attention to understanding the questions. This, in turn, would support the validity of the study's measurement, as it measures what those questions have been designed to be measured. In addition to this, descriptive analysis revealed that the vast majority of respondents (executives and middle managers-in mergers and non-merger companies) spend more than five years in their companies, and they have above average experience of the activities in their companies. Therefore, this would indicate that those who answered the questionnaires have the knowledge, experience and confidence to answer the questionnaires correctly. This, in turn, would provide evidence of the validity of the study measurement and to the findings that resulted from such measurements.

Chapter 9

9. HUMAN RESOURCE AND CULTURE AS SUCCESS FACTORS IN MERGERS AND ACQUISITIONS: COMPARATIVE ANALYSIS

9.1 INTRODUCTION

This chapter examines the factors, which have been investigated within this research, that influence the merging/acquiring performance in addition to employee commitment/trust. The research design is comparative, in other words, the study sample consists of two groups, one of which is the companies involved in merger/acquisition activities (experiment group), and the who are not (control group). The analysis, therefore, is based on the comparisons between these two groups. This helps the researcher to determine the main factors that play critical roles in the success of merging/acquiring companies.

Logistic regression is used for the research data analysis. But before discussing the data analysis, the " why" and "how" logistic regression used in this study is discussed.

This study has used questionnaire technique as a main source of data collection, in which the majority of the data are measured on both the ordinal and nominal scales. Simple statistical tests such as cross-tabulation, correlation and chi-square have been used to demonstrate the presence or absence of the relationship between variables. However, such techniques are limited when it comes to the analysis of multivariate problems, which are required in this study. Regression analysis provides a powerful and flexible set of analytical tools for multivariate analysis. Such a powerful tool as this is appropriate only for data that are continuous and unbounded, but ordinal and nominal measure produces bounded and discrete data. To overcome this problem, logistic regression is employed by using dummy variables. Dummy variables are variables that are coded 1 or 0, depending on whether an attribute is present or absent (Pattie, 2000). For example, a company performance after a merger/acquisition (dependent variable) is measured in five ranked scales as follows:

Poor = 1, below average = 2, average = 3, above average = 4, excellent = 5.

This scale can be reduced to just two ranks. We can create a dummy variable for company performance, coded =1 if the company performance after the merger is excellent, or zero if it is not. Another dummy variable can be created, coded =1 if the company performance after the merger is above average, or zero if it is not. For this scale, we can create four dummy variables based on the following equation:

NDV= n-1

Where, NDV equates a number of dummy variables and n equates to the number of ranks.

Within this study, dummy variables have been created for each set of data (merging and non-merging companies; top and middle managers) and for the research dependent variables (financial/non-financial performance and employees' commitment/trust). The reason for creating only two dummy variables is because the other dummy variables are statistically insignificant (average performance and below average performance). Thus, two dummy variables are used within this study (excellent and above average performance levels).

9.2 HUMAN RESOURCE, CULTURAL AND ENVIRONMENT FACTORS WITH RESPECT TO COMPANY PERFORMANCE

9.2.1 LOGISTIC MODEL AND FINANCIAL PERFORMANCE AS THE DEPENDENT VARIABLE

Logistic regression models are developed in this section for each set of data (merging and non-merging companies; top and middle managers). Each set of data has two or more dependent variables (financial and non-financial performance in addition to commitment/trust). For each dependent variable there are two dummy variables (excellent performance and above average performance). A logistic regression model is developed for each dummy dependent variable.

The results of the models are then interpreted and explained and the comparisons between the models are analysed. These comparisons could provide more insight into the main factors that play a critical role in the success of mergers and acquisitions. The process by which the logistic regression model is developed can be summarised as follows:

Firstly, the study independent variables are entered into the model, and the successive removal of insignificance variables follows until the best possible model at a significant level of 10% is reached.

9.2.1.1 TOP MANAGEMENT'S POINTS OF VIEW

i. Merger/acquisition context (TM)

Here, two logistic regression models have been developed which represents the two dummy variables that have been created to assess the financial performance of companies after mergers/acquisitions (TMPRYA).

The dummy dependent variables that have been created for financial performance after the mergers are:

I. TMPRYAD1: coded 1 if a company performance after the merger is excellent, otherwise coded zero.

II. TMPRYAD2: coded 1 if a company performance after the merger is above average performance, otherwise coded zero.

a) The first logistic model as TMPRYAD1 is the dummy dependent variable as follows:

Table 9.1: logistic model developed for TMPRYAD1 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R Square [c]
SMADVH	.530	.228	.020	1.699	
SMCOMP	.325	.155	.036	1.383	.336*
SMCULT	.092	.056	.097	1.097	.471**
Constant	-17.579	6.113	.004	.000	

* Cox & Snell R Square; ** Nagelkerke R Square

[c] -2 log likelihood is 37.008

[a] the Chi-square value of the model TMPRYAD1 is 18.035, Sig. .000

Table 9.1 shows the logistic regression model, as TMPRYAD1 is the dummy dependent variable. The logistic regression equation is reported under column B. Each coefficient is expressed as log odds, since the dependent variable has been transformed using the logistic transformation. However, the coefficients are not easily interpretable, because these coefficients are reported as log odds. So, the anti-log of each coefficient is taken, which make it easy to convert them back into odds ratios. This made it easier to interpret the coefficient. In the Table, this is found in the EXP(B) column.

Within the logistic regression the -2 log likelihood ratio, which approximates to the chi-square distribution was reported. The logistic analysis process involves two stages: the first is the initial -2 log likelihood, before any independent variables are entered into the equation. A second -2 log likelihood is reported after the independent variables have been entered the equation, (in this model it is 37.008). The difference between the initial and the final log likelihood indicates whether the model as a whole has significantly improved our understanding of the dependent variable. In this model, it is 18.035, with a significance level less than 001 (see Chi-square value). This signifies that the model successfully improves our understanding of the dummy dependent variable.

Table 9.1 shows that three variables are successfully entering the equation at significance level of less than 0.1. These variables are SMADVH, TMCOMP and TMCULT, which stand for differentiation through human resource, effective communication plan and culture differences respectively. This indicates that human resource, effective communication and managing culture differences all have a positive impact on companies' performance who are involved in merger/acquisition activities. Moreover, the EXP (B) column indicates the relative importance amongst the three independent variables in the model (in the Table 9.1). This is based on the magnitude of coefficient of each independent variable. In other words, the human resource component (1.699) is more important than the communication plan (1.383), which is more important than managing culture (1.097). Therefore, we can say that any unit increase in the score of differentiation through human resource, will produce an increase in the score of the dummy dependent variable (TMPRYAD1) by 1.699. This also applies to the other two independent variables.

The goodness of fit statistics, which are analogous to R square in the conventional regression and logistic regression reports two R squares: Cox & Snell R square and Negelkerke R square. Cox & Snell R square represents the minimum R square in the model which is about 0.34 and Negelkerke R square represents the maximum R square which is around 0.47. The R square, in this model is approximately 0.40. Therefore, we can say that 40% of the variation of the dummy dependent variable (TMPRYAD1) could be accounted for by the three independent variables (TMADVH, TMCOMP and TMCULT) other variables are constant.

b) The second model TMPRYAD2 is the dummy dependent variable as follows:

TMPRYAD2 coded 1 if a company performance after the merger is above average performance, otherwise the code will be zero.

The set of data for top mangers in merging companies, involves a number of variables that are highly correlated. This caused the problem of multicollinearity that limited our ability to develop the appropriate logistic regression that could explain the variation of the dummy dependent variable (TMPRYAD2). This problem was resolved by developing two logistic models for the dummy dependent variable (TMPRYAD2). These models are as follows:

9.2: Logistic regression models created for TMPRYAD2[k] dummy variable

Variables entered the logistic model	B	S.E.	Sig.	Exp(B)	R Square [c]
SMCOMP [a]	.534	.171	.002	1.706	.44* .64**
SMANTAP [a]	.274	.129	.034	1.315	
Constant	- 15.47	5.127	.003	.000	
SMEVEN [b]	.189	.069	.006	1.208	.32* .465**
SMCULT [b]	- .143	.064	.025	.867	
Constant	- .111	2.57	.966	.895	

*Cox & Snell R square, **Nagelkerke R square

[k]Two logistic models developed for TMPRYAD2 because of the problem of multicolliniarity.

[a]The Chi-square value of the first model is 25.685 Sig. .000

[b]The Chi-square value of the second model is 17.017 Sig. .000

[c]-2 log likelihood of the first model is 25.88, and -2 log likelihood of the second model is 34.55

As Table 9.2 shown, the Chi-square results indicated that the logistic regression in the First and second models successfully improve our understanding of the dummy dependent variable at significance levels of less than 0.001 (TMPRYAD2).

In the first model, two variables enter the logistic equation: they are SMCOMP and SMANTAP. These variables are named: effective communication plan and effective integration approach respectively. The logistic regression coefficients, as they are appear in the EXP(B), indicate that the communication plan (1.71) is more important than the integration approach (1.32) for the variation in the dummy dependent variable (TMPRYAD2). According to the model, any unit increase in the score of communication plan, produces a 1.71 score increase in the dummy dependent variable. Also, but a unit increase in the score of the integration approach would only generate a 1.32 scored increase in the dummy dependent variable. The R square in the model, on average, indicates that 54% of the variation of the dummy dependent variable is accounted for by these two variables (SMCOMP and SMANTAP).

Within the second model, two variables entered the logistic regression equation. These are SMEVEN and SMCULT, which (respectively) stand for understanding the external environment and culture differences. The R square in the model, on average, indicates that about 39% of the variation of the dummy dependent variable can be attributed to the two variables SMEVEN and SMCULT.

From the analysis above, we can see that the majority of the variables that enter the logistic models are internal variables (communication plan, culture differences, human resource and integration strategy). Understanding the environment is the external variable that enters the logistic regression models, only when the dummy variable is above average performance but not excellent performance. Therefore, from the top manager's point of view, managing human resource and culture differences through effective communication plan and integration strategy could play a critical role in the success of mergers and acquisitions.

ii. Non -merging company context

Non-merging companies group is the control group in this study, so we can apply the same logic to this group as with the merging companies group. Namely, two logistic models have been developed, which represent the two dummy variables that are created for current financial performance of the non-merging companies.

The dummy dependent variables that have been created for current financial performance of non-merging companies are:

I. TWPRYCD1: coded 1 if a company current performance is excellent, otherwise the code is zero.

II. TWPRYCD2: coded 1 if a company's current performance is above average performance, otherwise the code is zero.

a) The logistic model as TWPRYCD1 is the dummy dependent variable as follows:

Table 9.3: Logistic regression model developed for TWPRYCD1 dummy dependent

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SWCOOP	-.655	.338	.052	.519	.42* .60**
SWEVEN	.281	.149	.059	1.324	
SWADVS	.601	.359	.094	1.824	
SWJUST	.278	.140	.048	1.320	
Constant	-24.551	9.576	.010	.000	

* Cox & Snell R Square, ** Nagelkerke R Square

[a] The Chi-square value of the model is 21.21 Sig. .000

[c] -2 Log likelihood of the model is 25.2

Table 9.3 shows that the difference between initial and final -2 log likelihood logistic model is 21.2 at a significance level of less than (.001), which indicates that the model successfully improves our understanding of the dummy dependent variable TWPRYCD1.

Table 9.3 shows that four independent variables successfully entered the model at a significance level of less than 0.1. These variables are ordered according to their importance to the dummy variable (TWPRYCD1) as follows: SWADVS, SWEVEN, SWJUST, and SWCOOP. These variables (respectively) stand for; differentiation through size, understanding environment, procedural justice, and an effective co-ordination plan for stakeholders. The interpretation of the logistic regression coefficients is as follows: any unit increase in a company's size score, would lead to an increase in the score of the dummy variable (TWPRYCD1) by 1.82, the same logic of interpretation applies to the other independent variables. The R square of the model, on average, indicates that these four variables: SWADVS, SWEVEN, SWJUST, and SWCOOP could account for approximately 51% of the variation of the dummy variable.

We can call the logistic model of the merging companies as (TMPRYAD1) the dummy variable, and compare it to the model of the non-merging companies as (TWPRYCD1) the dummy variable. Within the former model, three variables were successfully entered into the logistic equation at significance level less than (0.10). These variables are SMADVH, SMCOMP, and SMCULT, which are completely different from the variables that were entered the logistic model of non-merging companies (SWADVS, SWEVEN, SWJUST and SWCOOP).

According to the top management point of view, the factors that play a critical role on the success of non-merging companies differ from those of merging companies. The majority of factors that influence the success of non-merging companies are external factors, whilst merging companies are affected by internal factors.

b) The logistic model as TWPRYCD2 is the dummy dependent variable as follows:

Table 9.4: Logistic regression model developed for TWPRYCD2 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SWEVEN	.294	.171	.085	1.342	.505* .74**
SWCOH	.424	.198	.032	1.528	
SWCULT	.265	.111	.016	1.304	
Constant	-37.728	14.031	.007	.000	

* Cox & Snell R Square, ** Nagelkerke R Square

[a] The Chi-square of the model is 27.42 Sig. .000

[c] -2 Log likelihood of the model is 16.98.

Table 9.4 present that the difference between the initial and final -2 log likelihood "27.4" (chi square value) successfully improves our understanding of the dummy variable (TWPRYCD2) at a significance level of less than (0.001).

Three variables enter the logistic regression model at a level of significance of less than 0.10. These variables are ordered according to their importance to the dummy variable (TWPRYCD2) as follows: SWCOH, SWEVEN, and SWCULT. These respectively stand for: Organisational coherence, understanding environment and culture differences. Organisational coherence plays important role in the variation of the dummy variable (TWPRYCD2) as well as the understanding environment and the culture differences. In other words, any unit change in the score of organisational coherence would lead to change in the dummy variable by 1.50 units whilst the other variables are constant. The R square of the model, on average, signifies that around 62% of the variation of the dummy variable (TWPRYCD2) is accounted for by these three variables (SWCOH, SWEVEN and SWCULT).

Comparing the model that was developed for merging companies as TMPRYAD2 is the dummy variable (Table 9.2) to that was developed for non-merging company as TWPRYCD2 is the dummy variable (Table 9.4). It can be noted that in the latter three variables entered the logistic model, two of which are external factors (TWCOH and TWEVEN) and one is internal factor (TWCULT), also the external factors are more important for the dummy variable than the internal one (see the logistic regression coefficients under Exp(B) column). In the former two models have been developed because of the multicollinearity problem. Two variables enter each model. These variables are TMCOMP, TMANTAP, TMCULT and TMEVEN. Three of these factors are internal (TMCOMP, TMANTAP and TMCULT) and only one factor is external (TMEVEN). Understanding environment and culture differences are shared in the two groups (merging and non-merging companies). In other words, understanding environment and culture differences are important factors for the success of merging (TM) and non-merging (TW) companies. However, there is a difference between these two groups in the case of the other variables. Communication and integration strategy are critical factors for the success of merging companies, whilst organisation coherence is critical for the success of non-merging companies.

According to the logistic models that have been developed to merging companies, managing human resource and culture differences through an effective communication plan and appropriate integration strategy are critical factors for the success of merger and acquisition activities according to the top managers' point of view.

9.2.1.2 MIDDLE MANAGEMENT'S POINT OF VIEW (MM)

i. Merger and acquisition context (MM)

From this set of data, two logistic regression models have been developed, which represent the dummy variables that have been created for financial performance after mergers/acquisitions (MMPRYA).

The dummy variables, which are created for financial performance after mergers/acquisitions according to middle managers' points of view, are:

I. MMPRYAD1: coded 1 if the performance of a company after the mergers/acquisitions is excellent, otherwise equates to zero

II. MMPRYAD2: coded 1 if the performance of a company after the mergers/acquisitions is above average, otherwise equates to zero.

a) Logistic regression model as (MMPRYAD1) is the dummy variable as follows

Table 9.5: Logistic regression model developed for MMPRYAD1 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
MMCOP	.346	.188	.065	1.413	.43* .61**
MMJUST	.167	.075	.025	1.182	
MMCOMP	.227	.137	.098	1.255	
MMCOH	.279	.096	.004	1.322	
Constant	-31.114	9.001	.001	.000	

* Cox & Snell R Square, ** Nagelkerke R Square
[a] The Chi-square value of the model is 36.87 Sig. .000
[c] -2 log likelihood of the model is 44.10.

Table 9.5 shows that the difference between initial and final -2 log likelihood is " 36.86" (the value of chi square). This indicates that the model successfully improves our understanding of the dummy variable (MMPRYAD1) at significance level of less than .001.

Four independent variables have successfully entered the logistic equation at a significance level of less than 0.10. These variables, which are ordered according to their importance to the dummy variable (MMPRYAD1), are MMCOP, MMCOH, MMCOMP and MMJUST. These variables (respectively) are labelled: coping programmes, organisation coherence, communication plan and procedural justice. The importance of coping programmes for a company performance is clear from its regression coefficient of 1.4. That to say, any unit increase in the score of coping programmes, would generate an increase in the score of the dummy variable (MMPRYAD1) by 1.4 units when the other variables remain constant.

The R square, on average, indicates that approximately 52% of the variation of the dummy dependent variable (MMPRYAD1) could be accounted for by these four variables.

We can see that three of these variables (MMCOP, MMCOMP and MMJUST) have human aspects (internal factors), whilst one variable (MMCOH) involves the environmental aspect (external factor).

a) Logistic regression model as (MMPRYAD2) is the dummy variable as follows:

Table 9.6: Logistic regression model developed for MMPRYAD2 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
MMSTRS	.133	.059	.025	1.142	.545* .746**
MMJUST	.173	.081	.032	1.189	
MMCOP	.416	.182	.022	1.515	
MMCOOP	.713	.303	.018	2.041	
MMEXEN	.257	.126	.042	1.293	
MMCOH	.396	.156	.011	1.486	
MMCTRS	-.408	.162	.012	.665	
Constant	-38.725	11.233	.001	.000	

* Cox & Snell R Square, ** Nagelkerke R Square
[a] The Chi-square value is 52. 01 Sig. .000
[c] -2 log likelihood of the model is 34.5.

Table 9.6 shows the Chi square value is 52, which is the result of the difference between the initial and final -2 log likelihood, and indicates that the logistic regression model successfully improves our understanding of the dummy variable (MMPRYAD2) at a significance level of less than .001. Here, we can see that the Chi -square value is large at 52. This signifies that the variables, which have entered the logistic model, have a large contribution to understanding and explaining the dummy variable (MMPRYAD2) at a very high significant level of .000.

The logistic model (Table 9.6) involves seven variables, which successfully have entered the logistic equation at significance level of less than 0.10. These variables, which are ordered according to their importance to the dummy variable (MMPRYAD2), are MMCOOP, MMCOP, MMCOH, MMEVEN, MMJUST, MMSTRS and MMCTRS. These variables (respectively) are labeled: co-ordination plan with stakeholders, coping programmes, organization coherence, understanding environment, procedural justice, employee stress, and employee commitment/trust.

According to the logistic regression coefficients, which can be found under the EXP(B) column in Table 9.6, MMCOOP plays the most important role among these variable in the variation of the dummy variable (MMPRYAD2) since its slope (coefficient) is 2.041. That is to say, any unit increase in the score of co-ordination plan (MMCOOP), would lead to an increase in the score of the dummy variable (MMPRYAD2) by 2.041 units and vice versa when the other variables remain constant.

The R square of the model, on average, indicates that approximately 65% of the variation in the dummy variable (MMPRYAD2) could be accounted for by these seven variables. In this model, human aspects (MMCOP, MMJUST, MMSTRS and MMCTR) are almost the same as environmental aspects (MMCOOP, MMCOH, MMEVEN) in supporting a company performance after a merger/acquisition, according to middle managers' points of view.

ii. Non-merging company context (MW)

This set of data is concerned with middle managers' attitude and opinions of non-merger companies, which is the control group within this study. The same technique as before has been applied to the middle managers in the merger companies. Namely, two logistic models were developed, which represent the two dummy variables that were created for the current financial performance of non-merging companies.

The dummy variables, created for current financial performance of non-merging companies are:

I. MWPRYCD1: coded 1 if a company current performance is excellent, otherwise equates to zero.

II. MWPRYCD2: coded 1 if a company current performance is above average, otherwise equates to zero.

a) The logistic model as MWPRYCD1 is the dummy dependent variable as follows:

Table 9.7: Logistic regression model developed for MWPRYCD1 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
MWSTRS	.252	.092	.006	1.287	
MWJUST	.217	.080	.007	1.243	.33*
MWCOMM	-.159	.088	.068	.853	.48**
MWCTRS	.207	.118	.078	1.230	
Constant	-20.645	7.405	.005		

* Cox & Snell R Square, ** Nagelkerke R Square
[a] The Chi-square vale of the model is 25.20 Sig. .000
[c] -2 log likelihood of the model is 47.64.

Table 9.7 shows that the difference between initial and final –2 log likelihood of the logistic model is 25.2 at a significance level of less than .001. This indicates that the model successfully improves our understanding of the dummy variable (MWPRYCD1). Four independent variables successfully enter the logistic equation at a level of significance of less than .10. These variables, which are ordered according to their importance to the dummy variable (MWPRYCD1), are MWSTRS, MWJUST, MWCTRS and MWCOMM. These variables (respectively) are labeled: employees stress, procedural justice, employee commitment and trust and communication media. The interpretation of the coefficients is as follows: any unit change in the score of employee stress would produce a change in the score of the dummy dependent variable (MWPRYCD1) by 1.29 units when the other variables remain constant, while a unit change in the score of procedural justice would generate a change in the score of the dummy variable (MWPRYCD1) by 1.24 units when the other variables remain constant. The R square of the model, on average, indicates that approximately 40% of the variation of the dummy variable (MWPRYCD1) is accounted for by the four variables. All of the variables involve a human aspect. In other words, from the middle managers' point of view internal factors in non-merger companies positively influence a company's financial performance.

b) Logistic model as MWPRYCD2 is the dummy variable as follows:

Table 9.8: logistic regression model developed for MWPTYCD2 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
MWCULT	.076	.038	.047	1.079	.36* .49**
MWCOMP	.180	.105	.085	1.197	
MWEVEN	.164	.053	.002	1.178	
Constant	-12.653	3.827	.001	.000	

* Cox & Snell R Square, ** Nagelkerke R Square
[a] The Chi-square value of the model is 27.50 Sig. .000
[c] -2 log likelihood of the model is 54.30

Table 9.8 presents that the logistic model successfully improves our understanding of the dummy variable (MWPRYCD2) at a significance level of less than .001, as it is indicated by the Chi-square value and its associated level of significance.

Three variables have successfully entered the logistic equation at a level of significance of less than .10. These variables are listed according to their importance to the dummy variable (MWPRYCD2) as follows: MWCOMP, MWEVEN, and MWCULT. These variables are labeled (respectively) as effective communication plan, understanding environment and culture differences.

The R square in the model, on average, indicates that approximately 42% of the variation of dummy variable (MWPRYCD2) is accounted for by these three variables.

Comparing logistic model that is developed for merging companies, as MMPRYAD1 the dummy variable (Table 9.5) to that of non-merging companies, as MWPRYCD1 the dummy variable (Table 9.7). The latter model involves four variables MWSTRS, MWJUST, MWCTRS and MWCOMM, whilst the former model consists of four different variables MMCOP, MMCOH, MMCOMP and MMJUST. In other words, coping programmes and communication plan are fitted significantly into the logistic model of merging companies, but they have not been entered into the model of non-merging companies. This could provide some indication as to the importance of these variables for company employees during the merger/acquisition process, since these variables (MMCOP and MMCOMP) would enable employees to cope with the merger/acquisition atmosphere and conditions, in addition to, helping them alleviate the anxiety and stress associated with such strategies. Moreover, organisational coherence (MMCOH) has significantly entered the merging company' model as an important factor, but is not important in the non-merging company' model. This could explain that middle managers feel unstable during the merger/acquisition process, because of the disequilibria that has been caused by the merger/acquisition activities, while in non-merging companies no such disequilibria has occurred, yet such coherence could exist (in place) within the non-merging companies so that no need to worry about coherence.

Comparing the logistic model that has been developed for merging companies, as MMPRYAD2 is the dummy variable (Table 9.6) to that of non-merging companies, as MWPRYCD2 is the dummy variable (Table 9.8). The latter model involves three variables; MWCOMP, MWEVEN, and MWCULT, whilst the former model consists of seven variables; MMCOOP, MMCOP, MMCOH, MMEVEN, MMJUST, MMSTRS and MMCTRS. Coping programmes, coherence and justice have significantly entered the merging model as important factors, but have not entered non-merging model. This could explain that middle managers suffer high stress level and anxiety during the M/As process and coping programmes and procedural justice could alleviate these feelings. Moreover, organisation coherence (MMCOH) has significantly entered the merging companies model as an important factor, but has not entered the non-merging companies' model. This can explain that middle managers feel unstable during the merger/acquisition process, because of the disequilibria that has been created by the merger/acquisition activities, whilst in non-merging companies no such disequilibria occurred, yet such coherence could exist (in place) within such companies so that no need to worry about coherence.

9.2.2 LOGISTIC MODELS AND NON-FINANCIAL PERFORMANCE AS THE DEPENDENT VARIABLE (PRX)

9.2.2.1 MERGER AND ACQUISITION CONTEXT (TM)

Two logistic regression models were developed which represent two dummy variables that were created for non-financial performance after mergers/acquisitions (TMPRXA). The criteria that have been used to measure non-financial performance are operation efficiency, service quality, and public image.

The dummy dependent variables, created for non-financial performance after mergers are:

I. TMPRXAD1: coded 1 if a company performance after merger is excellent, (0) otherwise equates zero.

II. TMPRXAD2: coded 1 if a company performance after merger is above average or excellent, otherwise equates zero.

a) Logistic model as TMPRXAD1 is the dummy variable as follows:

This set of data (top mangers in merging companies), involves a number of variables that are highly correlated. This caused the problem of multicollinearity that limits our ability to develop the appropriate logistic regression model that could explain the variation of the dummy dependent variable (TMPRXAD1). This problem was resolved by developing two logistic models for the dummy dependent variable (TMPRXAD1). These models are as follows:

Table 9.9: Logistic regression model developed for TMPTXAD1[k] dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SMADVH	1.179	.492	.017	3.253	.56* .765**
SMCOMP	.676	.272	.013	1.966	
Constant	-29.032	10.353	.005	.000	
SMCULT	-.115	.052	.026	.891	.33* .45**
SMCOP	.259	.102	.011	1.296	
Constant	.701	2.432	.773	2.016	

* Cox & Snell R square, ** Nagelkerke R Square

[k] Two logistic models developed for TMPTXAD1 because of the problem of multicolliniarity.

[a] The Chi-square of the first model is 36.02 Sig. .000,

[a] The Chi-square of the second model is 17.3 Sig. .000

[c] -2 log likelihood of the first model is 21.66, and –2 log likelihood of the second model is 40.38.

According to Table 9.9, we notice that the two logistic models that have been developed for the dummy variable (TMPTXAD1) successfully improve our understanding of the dummy variable at a significant level of less than .001.

As Table 9.9 shown, two variables enter each of the two models, which have been developed for the dummy variable (TMPRXAD1) at a significant level of less than 0.10. That is to say, four variables in the model have been fitted significantly into the models that have been created for (TMPRXAD1) and these are: TMADVH, TMCOMP, TMCOP and TMCULT, which (respectively) have been labeled as: differentiation through human resource, effective communication plan, coping programmes, and culture differences. In other words, these variables are important factors in supporting non-financial performance of merging companies in order for them enjoys an excellent performance.

The R Square in the first model indicates that approximately 66% of the variation of the dummy variable (TMPRXAD1) could be accounted for by the two independent variables (TMADVH, TMCOMP). Whilst the R Square in the second model, on average, signifies that around 45% of the variation in the dummy variable (TMPRXAD1) could be attributed to the independent variables (TMCOP and TMCULT). We can see that the variables that have entered the models that have been developed for (TMPRXAD1) are internal factor; namely, they involve human aspects.

b) Logistic model as TMPRXAD2 is the dummy variable as follows:

This set of data (top mangers in merging companies), involves a number of variables that are highly correlated. This caused the problem of multicollinearity that limits our ability to develop the appropriate logistic regression model that could explain the variation of the dummy dependent variable (TMPRXAD2). This problem was resolved by developing two logistic models for the dummy dependent variable (TMPRXAD2). These models are as follows:

Table 9.10: Logistic regression model developed for TMPTXAD2[k] dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SMCOP	.341	.193	.077	1.406	.42* .59**
SMCULT	-.130	.064	.042	.878	
SMEVEN	.138	.073	.061	1.147	
Constant	-2.812	2.966	.343	.060	
SMADVS	.381	.198	.054	1.464	.38* .53**
SMCOP	.431	.167	.010	1.539	
Constant	-11.026	3.986	.006	.000	

* Cox & Snell R Square, ** Nagelkerke R Square
[k] Two logistic models developed for TMPTXAD2 because of the problem of multicolliniarity.
[a] The Chi-square of the first model is 24.10 Sig. .000,
[a] The Chi-square of the second model is 20.93 Sig. .000
[c] -2 log likelihood of the first model is 30.95, and –2 log likelihood of the second model is 34.11.

From the Table 9.10, we can see the two logistic models that have been developed for the dummy variable (TMPRXAD2) successfully improves our understanding of the dummy variable at a significant level of less than .001.

Three variables enter the first model TMCOP, TMEVEN and TMCULT at a significance level of less than 0.10. These variables (respectively) are labeled as: coping programmes, understanding environment and culture differences. Two variables enter the second model TMADVS and TMCOP at a significant level of less than 0.10. These two variables (respectively) are labeled as: differentiation through company size and coping programmes. Two environmental variables TMADVS and TMEVEN entered the TMPRXAD2 model, but they do not enter the models when TMPRXAD1 is the dummy variable. In other words, the size of the company and understanding the environment are important factors for supporting companies to achieve an above average non-financial performance after the mergers/acquisitions.

The R Square in the first model, on average, indicates that around 50% of the variation in the dummy variable (TMPRXAD2) could be accounted for by the three variables TMCOP, TMEVEN and TMCULT. Whilst the R Square in the second model signifies that approximately 45% in the variation of the dummy variable (TMPRXAD2) could be attributed by the two variables TMADVS and TMCOP.

9.2.2.2 NON-MERGING COMPANY CONTEXT

Non-merging companies group is the control group in this study, so the same logic has been applied to this group as with the merging companies group. Namely, two logistic models were developed, which represent the two dummy variables that are created for current non-financial performance of the non-merging companies.

The dummy dependent variables, created for current non-financial performance of non-merging companies, are:

I. TWPRXCD1: coded 1 if a company current performance is excellent, otherwise equates zero.

II. TWPRXCD2: coded 1 if a company current performance is above average, otherwise equates zero.

a) Logistic model as TWPRXAD1 is the dummy variable as follows:

This set of data (top mangers in non-merging companies), involves a number of variables that are highly related, such as understanding the environment (SWEVEN) and organisational coherence (SWCOH) and are highly correlated at .68. This caused the problem of multicollinearity that limits our ability to develop the appropriate logistic regression model that could explain the variation of the dummy dependent variable (TWPRXAD1). This problem was resolved by developing two logistic models for the dummy variable. For TWPRXAD1, the models are as follows:

Table 9.11: Logistic regression model developed for TWPTXAD1[k] dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SWADVS	.640	.314	.041	1.897	.33* .45**
SWCOH	.276	.113	.014	1.317	
Constant	-18.414	6.836	.007	.000	
SWADVS	.502	.242	.038	1.652	.27* .36**
SWEVEN	.170	.077	.027	1.186	
Constant	-12.278	4.347	.005	.000	

* Cox & Snell R Square, ** Nagelkerke R Square

[k] Two logistic models developed for TWPTXAD1 because of the problem of multicolliniarity.

[a] The Chi-square of the first model is 15.85 Sig. .000,

[a] The Chi-square of the second model is 12.18 Sig. .002.

[c] -2 log likelihood of the first model is 36.95, and -2 log likelihood of the second model is 40.62.

Table 9.11 shows that the two logistic models developed for the dummy variable TWPRXCD1 successfully improves our understanding of the dummy variable at a significant level of less than .001.

Two variables enter each of the two models, which have been developed for the dummy variable (TWPRXCD1) at a significant level of less than 0.10, and one variable (SWADVS) is shared in the two models. That to say, three variables have been entered into the models that have been created for (TMPRXAD1) these are: SWADVS, SWCOH and SWEVEN. Here, differentiation through the size of the company variable (SWADVS) has entered the two models. This is because of the problem of multicollinearity that results in a high correlation between SWEVEN and SWCOH, which make it impossible to fit the three variables (SWADVS, SWEVEN and SWCOH) into one model at an acceptable level of significance.

The R Square in the first model, on average, indicates that approximately 40% of the variation in the dummy variable (TWPRXCD1) is accounted for by the two variable (SWADVS and SWCOH). Whilst the R Square of the second model indicates that around 32% of the variation in the dummy variable (TWPRXCD1) is accounted for by the two variables (SWADVS, and SWEVEN).

b) Logistic model as TWPRXAD2 is the dummy variable as follows:

Table 9.12: Logistic regression model developed for TWPTXAD2 dummy variable

Variables entered the logistic model [a]	B	S.E.	Sig.	Exp(B)	R square [c]
SWADVS	-.750	.421	.075	.472	.50* 74**
SWUNEN	.346	.161	.032	1.413	
SWJUST	.563	.237	.018	1.756	
SWCOMM	-.591	.296	.046	.554	
Constant	-14.863	8.013	.064	.000	

* Cox & Snell R Square, ** Nagelkerke R Square
[a] The Chi-square value of the model is 27.17 Sig. .000
[c] -2 log likelihood of the model is 17.23.

Table 9.12 shows the logistic regression model, which has been developed for the dummy variable (TWPRXCD2), successfully improves our understanding of the dummy variable at a significant level of less than .001.

Regarding the dummy variable TWPRXCD2, four variables have entered the logistic model successfully that has been created for the dummy variable TWPRXCD2 at a significant level of less than 0.10. These variables are order according to their importance to the dummy variable (TWPRXCD2): SWJUST, SWEVEN, SWCOMM and SWADVS. These variables (respectively) are labeled as: procedural justice, understanding environment, communication media and differentiation through company size.

The R square in the model, on average, indicates that approximately 64% of the variation in the dummy variable (TWPRXCD2) is accounted for by these four variables (SWJUST, SWEVEN, SWCOMM and SWADVS).

In non-merging companies, we notice that environmental factors, (SWCOH, SWEVEN and SWADVS) play a critical role in supporting current non-financial performance. In other wards, company size, understanding environment and coherence are critical factors for a company to achieve operational efficiency, public goodwill (image) and quality of service (top managers' point of view). In merging companies, however, human factors (SMADVH, SMCOMP, SMCULT and SMCOP) play a critical role in supporting non-financial performance after the mergers/acquisitions. That is to say, human resource factors, effective communication plan, managing culture differences and coping programmes are influential factors for companies to obtain operational efficiency, public image and quality of service after the mergers/acquisitions.

Moreover, differentiation through the size of the company plays an important role in supporting non-financial performance after mergers/acquisitions.

9.2.3 HUMAN RESOURCES, CULTURAL ISSUES AND ENVIRONMENTAL FORCES AND EMPLOYEE'S COMMITMENT AND TRUST

Here, the logistic regression models have been developed so that employee's commitment and trust is the dependent variable.

This study is based on cross-sectional design, so we cannot prove the causal relationships between the studied variables and employee's commitment/trust as we are unable to establish the time order of the studied variables in cross-sectional design. Therefore, our rational of considering employee's commitment/trust as a dependent variable was established on the basis of theoretical and logical justification. It is logical to say that fairness and effective communication plan would produce highly committed/trusted employees, but highly committed/trusted employees would not automatically receive effective communication and fair treatment. In theoretical terms, the social exchange theory suggested that human resource activities affect the development of employee trust and commitment (see for example, Whitener, 1997; Shore and Wayne, 1993; Hubbard, 1999; Eisenberger and et al, 1990; Aryee and et al, 2002).

Within this section logistic regression models have been developed for middle management set of data only (merging and non-merging companies) because employee's commitment/trust measurement was not included in the top management questionnaire. Employee's commitment/trust was rated on a 5-point scale, with 1= "strongly disagree" and 5= "strongly agree". Therefore, four dummy variables can be created for employee's commitment/trust as dependent variable. However, only two dummy variables have been developed for the dependent variable in this study (highly committed/trusted employee and committed/trusted employee). This is because the other two dummy variables were insignificant in this study (somewhat committed/trusted employee and low committed/trusted employee).

9.2.3.1 MERGER AND ACQUISITION CONTEXT

From the middle management set of data, two logistic regression models were developed, which represent the dummy dependent variables that were created for employee commitment/trust in merging companies.

These two dummy variables are as follow:

I. MMCTRSD1: coded 1 if employee is highly committed/trusted to the merging company, otherwise equates zero.

II. MMCTRSD2: coded 1 if employee is committed/trusted to the merging company, otherwise equates zero.

The logistic regression models developed for MMCTRSD1 and MMCTRSD2 dummy variables are presented in Table 9.13. This Table shows that the value of the Chi-square for both MMCTRSD1 and MMCTRSD2 is 36.86 and 45.6, respectively, at a level of significant less than 0.01. This signifies that the two logistic models successfully improve our understanding of the two dummy variables.

Table 9.13 shows four independent variables successfully entered the logistic model (MMCTRSD1) at a level of significant of less than 0.10. These variables are ordered according to their importance to the dummy variable (MMCTRSD1) as follows: Coping programmes, organizational coherence, communication plan and procedural justice. The interpretation of the coefficients of the model (Exp(B)), in such that, any unit change in the score of coping programmes would produce a change in the score of the dummy dependent variable (MMCTRSD1) by 1.41 units whilst the other variables remain constant.

The R square in the model, on average, indicates that approximately 50% of the variation in the dummy variable (MMCTRSD1) is accounted for by these four variables. Three out of four variables, which entered the logistic model, are internal factors (human aspects), and only organizational coherence involves external factors (It should be noted that organizational coherence involves both internal and external factors). We can see that human aspects (internal factors) are influential factors on an employee' commitment and trust during the merger/acquisition process. Clearly, coping plans (training programmes, career counseling, team work and etc.), effective communication strategy and the fairness of treatment and redundancies are critical factors for enhancing the employee's commitment and trust to the new entity in the merger and acquisition context, whereas employee's commitment and trust is often suffered. These factors could help new organization gain highly committed and trusted employees.

Table 9.13 also presents the logistic model that was developed for (MMCTRSD2). Three variable are successfully entered this model. These variables are ordered according to their importance (based on the magnitude of the Exp(B)) as follows: organizational coherence, procedural justice and employee stress. The interpretation of the coefficients of the model (Exp(B)), is such that, any unit change in the score of organizational coherence would generate a change in the score of the dummy dependent variable (MMCTRSD2) by 1.94 units whilst the other variables remain constant. We can note that the Exp(B) of employee stress has a minus sign (-), which signifies that this variable negatively influences the dummy variable (MMCTRSD2). In other words, any unit increase in the score of employee stress would generate a decrease in the score of the dummy dependent variable (MMCTRSD2) by 1.2 units whilst the other variables remain constant.

The R square in the model, on average, indicates that approximately 60% of the variation in the dummy variable (MMCTRSD2) is accounted for by these three variables. Two out of the three variables are human factors (procedural justice and employee stress).

We can note that organizational coherence and procedural justice are influential factors in gaining both levels of commitment and trust: highly committed and trusted employee (MMCTRSD1), as well as, only committed and trusted employees (MMCTRSD2). In other words, middle managers often feel insecure and unstable during the upheaval that is often brought about by merger/acquisition strategies. These strategies often produce redundancies and changes in the structure and culture of the companies involved. This would intensify the level of employee stress and tension, which, in turn, would negatively influence the level of employee commitment and trust to the new entity. Therefore, organizational coherence and procedural justice are found to be influential factors for supporting both levels of employee commitment/trust (highly committed/trusted employees and only committed/trusted employees) .

Moreover, we can note that coping programmes and communication plans entered the logistic model (MMCTRSD1), but not (MMCTRSD2), which may indicate that these factors are influential in order to gain highly committed and trusted employees during the merger/acquisition process. In other words, effective training and career counseling programmes, in addition to, effective communication strategies would help the merging or acquiring company to alleviate much of the employee's stress and tension and uncertainty often associated with such strategies. This, in turn, would enhance employee commitment and trust towards the new entity.

Table 9.13: logistic regression models created for MMCTRSD1 and MMCTRSD2 dummy variables

Variables entered the logistic models	Dummy dependent variables							
	MMCTRSD1				MMCTRSD2			
	Exp (B)	Sig	Cox & Snell R square	Nagelker R square	Exp (B)	Sig	Cox & Snell R square	Nagelker R square
Coping programmes [a]	1.41	.065	.428	.606	--	--	--	--
Organisation coherence [a]	1.32	.004			--	--	--	--
Communication plan [a]	1.25	.098			--	--	--	--
procedural justice [a]	1.18	.025			--	--	--	--
Organisation coherence [b]	--	--	--	--	1.94	.003	.499	.759
Procedural justice [b]	--	--	--	--	1.29	.042		
Employee stress [b]	--	--	--	--	-1.25	.044		

[a], The Chi-square value of the model of MMCTRSD1 is 36.86 Sig. .000
[b] The Chi-square value of the model of MMCTRSD2 is 45.60 Sig. .000

9.2.3.2 NON-MERGING COMPANY CONTEX

From the middle management set of data, two logistic regression models have been developed, which represent the dummy dependent variables that have been created for employee commitment/trust in non-merging companies (highly committed/trusted employees and committed/trusted employees).

These two dummy variables are as follows:

I. MWCTRSD1: coded 1 if an employee is highly committed/trusted to his company, otherwise equates to zero.
II. MWCTRSD2: coded 1 if an employee is committed/trusted to his company, otherwise equates to zero.

The logistic regression models that have been developed for MWCTRSD1 and MWCTRSD2 dummy variables are presented in Table 9.14. This Table shows that the value of the Chi-square of (MWCTRSD1) is 40.54 at a level of significance of less than 0.001. This indicates that this logistic model successfully improves our understanding of the dummy variable (MWCTRSD1). We can see from Table 9.14 that two logistic models have been developed for the dummy variable (MWCTRSD2) because of the problem of multicolliniarity. The Chi-square values of the first and second models respectively are 21.16 and 36.15 at a level of significance of less than 0.01. This signifies that the two models successfully improve our understanding of the dummy variable (MWCTRSD2).

Table 9.14 also shows that three independent variables have successfully entered the logistic model (MWCTRSD1) at a level of significance of less than 0.10. These variables are ordered according to their importance to the dummy variable (MWCTRSD1) as follows: communication plan, organizational coherence and procedural justice. The interpretation of the coefficients of the model (Exp(B)), is such that, any unit change in the score of communication plan would produce a change in the score of the dummy dependent variable (MWCTRSD1) of 1.85 units whilst the other variables remain constant.

The R square in the model, on average, indicates that approximately 65% of the variation in the dummy dependent variable (MWCTRSD1) is accounted for by these three variables. Two out of the three variables, which entered the logistic model, are internal factors (communication plan and procedural justice). We can conclude that internal factors are important to support non-merging company in order to gain a highly committed/trusted employees. We can note that the difference between merging and non-merging companies regarding the gaining of a highly committed/trusted employee is due to the introduction of coping programmes. In other words, coping programmes factor significantly entered the logistic model and is the highest value of the coefficient (Exp(B)) amongst the other three factors entered the model, but this factor did not enter the logistic model that was developed for non-merging company. This could explain the importance of training programmes and career counseling in the context of mergers and acquisitions, because of the critical role that such factor could play in alleviating and reducing the trauma and uncertainty associated with merger/acquisition activities. Yet such trauma and uncertainty is not salient in the context of non-merging company so such a factor is not so critical. This should not imply that the coping programmes factor is not important for non-merging company, but this factor is more critical in the context of merger/acquisition than that of the non-merging context.

Table 9.14 also shows that two models have been developed for the dummy dependent variable (MWCTRSD2) due to the problem of multi-colliniarity. Two variables have successfully entered each of the two models at a significant level of less than 0.01. In other words, four variables entered the models that have been developed for the dummy variables (MWCTRSD2). These variables are as follows: procedural justice, organizational coherence, understanding environment and employee stress. We can see that the value of Exp(B) of employee stress is minus sign (-), which indicates that this variable negatively influences the dummy dependent variable (MWCTRSD2). In other words, any unit increase in the score of employee stress would indicate a reduction in the score of the dummy variable (MWCTRSD2) by .878 unit whilst the other variables remain constant.

Table 9.12 shows that the R square in the first model, on average signifies that about 30% of the variation in the dummy variable (MWCTRSD2) is accounted for by understanding environment and employee stress whilst the other variables remain constant. Moreover, the R square in the second model, on average, indicates that around 55% of the variation in the dummy dependent variable (MWCTRSD2) is attributed to the two variables (procedural justice and organizational coherence).

In general, comparing the context of merger/acquisition to that of non-merging context regarding both levels of employee commitment/trust as dummy dependent variables (MMCTRSD1 and MMCTRSD2; MWCTRSD1 and MWCTRSD2), it has been demonestrated that there is a high degree of similarity in the critical factors that impact on employee commitment/trust. This may indicate that critical factors that are crucial influence on the level of employee commitment/trust in the context of merger and acquisition also have crucial impact on the non-merger context. Yet, some differences have been mentioned and explained above.

Table 9.14: logistic regression models created for MWCTRSD1 and MWCTRSD2 dummy variables

Variables entered the logistic models	Dummy dependent variables							
	MWCTRSD1				MWCTRSD2			
	Exp (B)	Sig	Cox & Snell R square	Nagelker R square	Exp (B)	Sig	Cox & Snell R square	Nagelker R square
Communication plan [a]	1.85	.016	.563	.768	--	--	--	--
Organisation coherence[a]	1.30	.035			--	--	--	--
Procedural justice [a]	1.24	.006			--	--	--	--
understanding environment [b]	--	--	--	--	1.11	.024	.29	.41
Employee stress [b]	--	--	--	--	-.878	.013		
Procedural justice [b1]	--	--	--	--	1.27	.005	.44	.63
Organisation coherence[b1]	--	--	--	--	1.18	.023		

[a] The Chi-square value of the model of MWCTRSD1 is 40.54 Sig. .000
[b] Two models have been developed for MWCTRSD2 Because of the problem of multicolliniarity, The Chi-square value of the first model of MWCTRSD2 is 21.16 Sig. .000
[b1] The Chi-square value of the second model of MWCTRSD2 is 36.15 Sig. .000

9.3 CONCLUSION

This chapter provided a detailed analysis of the critical factors that are crucial to the success of mergers/acquisitions. This analysis was based on the impact of both internal and external variables on three important indicators (dependent variables) on the success of mergers/acquisitions by using logistic regression analysis. These indicators were financial, non-financial performance and employee commitment/trust. The results of the analysis indicate that internal factors are crucial to the success of mergers/acquisitions.

Chapter 10

10. THE ROLE OF HUMAN RESOURCE, CULTURAL FACTORS AND ENVIRONMENTAL FORCES FOR SUSTAINING COMPETITIVE ADVANTAGE IN THE CONTEXT OF MERGERS AND ACQUISITIONS

10.1 INTRODUCTION

This chapter presents a detailed analysis of the important factors contributing to sustainability of the successful performance of merging and non-merging companies, which were investigated in this study. The chapter consists of two main parts.

The first part will display and analyse the correlation coefficients, which discern the degree and direction of the relationship between the study variables (internal and external) and financial and non-financial performance as well as employee's commitment and trust for merging and non-merging companies. This part will also present and analyse the important factors that contribute to the success of mergers or acquisitions. This can be done through testing the difference between two correlation coefficients (r) (merging and non-merging companies), and then perceive the magnitude of the difference. The significance of the difference will be based on the Z-value. Part two will demonstrate and analyse the way merging and non-merging companies achieve and sustain their competitive advantage through analysing companies' performance before and after mergers (previous and current performance) at different levels of performance (excellent and above average performance).

10.2 FACTORS RESPONSIBLE FOR THE SUCCESSFUL MERGING COMPANIES' PERFORMANCE

In this section, correlation coefficients between study variables (internal and external) and companies' performance (financial and non-financial) will be demonstrated. These would discern the degree and direction of the relationship in question. Spearman (rho) rather than Pearson (r) was utilised to compute these coefficients. This is because the scales that were used in the study measurement instrument (questionnaire) are mostly at the ordinal level. Such measurement level entails the use of A non-parametric method such as the Spearman rho measure; also this method can be used in a wide variety of contexts since it makes fewer assumptions about variables that would be correlated (Bryman and Cramer, 2001). To demonstrate the success factors for merging companies, Spearman's (rho) correlation coefficients that related financial and non-financial performance to internal and external investigated variables for merging and non-merging companies will be computed. In comparing the two correlation coefficients of merging and non-merging companies, the Fisher's Z-transformation test will be employed. Blalock (1972), Spiegel (1972), Davies and Goldsmith (1972), Stopher and Meyburg (1979), Yule and Kendall (1950) recommended this test as the way of comparing correlation coefficients. Blalock (1972, p.406) stated that "if the correlations are based on independent samples, we can transform each of the r's into z's and then make use of a formula for the standard error of the difference between two z's, which is analogous to that for the standard error of a difference between means".

10.2.1 TOP MANAGEMENT POINT OF VIEW

Table 10.1 illustrates Spearman's correlation coefficients (rho) and their levels of significance based on top management questionnaires.

Table 10.1: Spearman's correlation between company performance and internal-external variables for merging and non-merging top manager

Variables	Merging companies(+)		Non-merging companies(++)	
	Financial Perf	Non-financial Perf	Financial Perf	Non-financial Perf
Culture differences	-.328**	-.432***	-.072	-.039
Justice	.674***	.745***	.447***	.460***
Integration approach	.426***	.403***	-----	-----
Coping programmes	.748***	.652***	.354**	.229
Communication media	.651***	.517***	.041	.169
Communication planning	.672***	.701***	.332**	.314*
Co-ordination planing	.530***	.570***	.029	.215
Understanding environment	.570***	.534***	.594***	.597***
Organisation coherence	.703***	.734***	.626***	.627***
Differentiation through human resource	.740***	.819***	.386**	.431***
Differentiation through size	.313**	.349**	.272*	.215
Differentiation through government support	.221	.240	.072	-.065

+ The number of merging companies (N = 44).
++ The number of non-merging companies (N=39).

*** P <.01,
** P <.05,
* P <.10,
P >.10

Table 10.1 shows that the merging companies' performance (financial and non-financial) associated positively with the following variables: procedural justice, integration approach, coping programmes, communication media and plan, co-ordination plan, understanding environment, organisation coherence, differentiation through human resource, size, and government support; and negatively associated with culture differences. Such findings are consistent with the strategic management literature, and particularly in mergers and acquisitions context.

Comparing these relationships of merging companies' performance and internal-external variables to those of non-merging companies, important factors that might support merging companies to achieve the success and competitive advantage could be determined. Findings presented in Table 10.1 signify the following:

1. Merging company performance has similar associations (positive or negative) with all variables (internal and external) in the financial and non-financial performance. This indicates that there is a high relationship between financial and non-financial performance. In other words, the factors that have influence on financial performance also have impact on non-financial performance in the same direction and to a similar degree.
2. It can be noticed, from Table 10.1, that merging company performance is highly associated with the internal variables (differentiation though human resource, justice, coping programmes, communication) and with the external variables (co-ordination, organisation coherence, and understanding environment). But it has a moderate-low association with the following variables: integration approach, culture difference, and differentiation though size. Finally, one variable has insignificant association (differentiation though government support). This could indicate that government support would not be an important factor for the success of mergers/acquisitions. However, variables that are highly associated with merging performance could represent the success factors for mergers/acquisitions.
3. It can be perceived that associations in the merging company performance with internal-external variables have higher correlations than those of the non-merging company. This could signify the variables that represent the success factors for mergers/acquisitions. However, even though these associations are higher for the merging company performance, such a difference could have occurred fairly frequently by chance. Therefore, using the Z-test can examine the differences between these associations in merging and non-merging companies.

Table 10.2: Correlation differences in financial performance and the important factors for mergers success

Investigated variables	Merging company[a]	Non-merging companies	Z-value[b]
Culture differences	-0.328	-0.072	1.175554
Justice	0.674	0.447	1.4759
Coping programmes	**0.748**	**0.354**	**2.135261**
Communication media	**0.651**	**0.041**	**3.222374**
Communication plan	**0.672**	**0.332**	**2.054702**
Co-ordination plan	**0.539**	**0.029**	**2.511788**
Understanding environment	0.57	0.594	-0.15893
Organisation coherence	0.703	0.626	0.605947
Differentiation through Human resource	**0.74**	**0.386**	**2.379128**
Differentiation through Size	0.315	0.272	0.206214
Differentiation through government support	0.221	0.072	0.668117

[a] Merging companies' (N=44); non-merging companies (N=39).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, respectively to reach to the 0.10, 0.05, and 0.01 level of significance (bolded).

10.2.1.1 CORRELATION DIFFERENCES IN FINANCIAL PERFORMANCE

The result of the Z-test, as presented in Table 10.2, indicates that five out of eleven variables associated with financial performance are significantly different at 0.10, 0.05, 0.01 level of significance. Therefore, these five variables could be considered the success factors for merging companies to obtain competitive advantage through the merger/acquisition strategies. These variables can be ranked based on the results of the Z-value as follows: communication media, co-ordination plan, differentiation through human resources, coping programmes, and communication plan. These findings are consistent with mergers and acquisition literature (see for example, Hubbard, 1999; Cartwright and Cooper 1996; Napier and et al, 1989; Schweiger and Ivancevich, 1987; Schweiger and DeNisi, 1991, Schweiger and Weber, 1989; Walsh, 1988; Mirvis, 1985; Marks and Cutcliffe, 1988). We can notice that four out of these five variables are internal factors, and co-ordination with stakeholder could represent the only external factor. Therefore, such variables would represent failure factors (barriers) that prevent merging companies from obtaining success and realising competitive advantage if merging companies pay no attention to such important variables. Even if understanding environment and organisation coherence variables are highly correlated with companies' performance, they do not represent success factors for mergers/acquisitions. This is not because these factors are not important for the success of mergers/acquisitions, but because such factors are associated highly with both merging and non-merging performance. In other words, environmental variables could be important for both merging and non-merging companies. However, internal variables, which are listed above, should be given more emphasis and attention during the merger process as they represent crucial factors for the success of mergers/acquisitions. Many merging companies often neglect such important factors during the integration process and then fail to gain the potential of such strategies.

Table 10.3: Correlation differences in non-financial performance and the important factors for mergers success

Investigated variables	Merging companies[a]	Non-merging companies	Z-value[b]
Culture differences	**-0.432**	**-0.039**	**1.853303**
Justice	**0.745**	**0.46**	**2.03281**
Coping programmes	**652**	**0.229**	**2.389198**
Communication media	**0.517**	**0.169**	**1.758296**
Communication plan	**0.701**	**0.314**	**2.383069**
Co-ordination plan	**0.57**	**0.215**	**1.878697**
Understanding environment	0.534	0.597	-0.4063
Organisation coherence	0.734	0.627	0.879586
Differentiation through human resource	**0.819**	**0.431**	**3.032797**
Differentiation through size	0.349	0.215	0.638783
Differentiation through government support	0.24	-0.065	0.786767

[a] Merging companies' (N=44); non-merging companies (N=39).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, respectively to reach to the 0.10, 0.05, and 0.01 level of significance (bolded).

10.2.1.2 CORRELATION DIFFERENCES IN NON-FINANCIAL PERFORMANCE

Table 10.3 shows that seven out of eleven variables associated with non-financial performance are statistically significantly different at 0.10, 0.05 and 0.01 level of significance. These variables are the same five variables that associated with financial performance as well as culture difference and procedural justice variables. These results would ensure the importance of internal variables for the success of mergers and acquisitions since the added variables are internal factors as well. However, the rank of these variables in non-financial performance is completely different from that of financial performance. These variables, based on the result of Z-value, are ranked as follows: differentiation through human resources, coping programmes, communication plan, justice, co-ordination plan, culture differences and communication media. We can notice that the variable that occupies the top of the list (communication media) in financial performance occupies the bottom of the list in non-financial performance. This could explain that the time dimension of the financial (accounting) performance (sales growth, return on asset, market share, stock price) differs from that of non-financial performance (public image, quality of service and efficiency of operations). In other words, financial performance is short-term oriented while non-financial performance is long-term oriented. This could explain that cultural differences/compatibility seem to be the influential factors in the success of mergers/acquisitions in the long-term more than in the short-run while communication media tends to be the influential factor in the success of mergers/acquisitions in the short-term more than in the long-term.

10.2.2 MIDDLE MANAGEMENT POINTS OF VIEW

Employee concerns differed according to the position they held within the organisation during the merger/acquisition process. For example top managers are not particularly worried about colleagues but reported being worried about status, procedure and culture issues; while middle managers, in addition to concerns about their own job security, worried about their colleagues' procedure issues (Hubbard, 1999). Therefore, we expect that important factors for middle managers could differ from those for top managers.

As discussed in the previous section, Spearman's (rho) correlation coefficients will be used to test the relationship between internal-external variables and financial and non-financial performance as well as employee commitment and trust in both merging and non-merging companies. Fisher's Z-transformation test will be employed to compare the two correlation coefficients in merging and non-merging companies at financial and non-financial performance as well as employee's commitment and trust. By comparing these relationships between merging and non-merging companies, success factors that might be responsible for obtaining success and realising competitive advantage in the context of mergers/acquisitions can be identified.

Table 10.4 shows that the merging companies' performance associated positively with the following variables: procedural justice, coping programmes, communication media, communication plan, understanding environment, organisation coherence, and employee's commitment and trust; and negatively associated with employee's stress and culture differences. These findings are to a great extent consistent with the strategic management literature and particularly in merger and acquisition context (see for example, Mirvis and Marks, 1986; Gopinath and Becker, 2000; Graves 1981; Birkinshaw and et al, 2000; Porter, 1985; Whipp et al 1989a; Whipp et al, 1989b; Pettigrew and Whipp, 1994). Comments about the findings are presented in Table 10.4. These can be summarised in the following notes:

I. The strength of the correlation between culture differences and companies' performance is very low in both merging and non-merging companies and is not very significant. This could explain that culture issues are not of much concern at middle management level.

II. Company performance (financial and non-financial) has moderate-low association with some of the internal variables (justice, coping programmes, communication media and plan) and low association with employee stress. Moreover, it is associated highly with external variables (understanding environment, organisation coherence). Furthermore, it can be noticed that some of the internal variables are associated with company performance in merging companies less than that of non-merging companies (Employee's stress, communication plan, commitment and trust, and justice). The other internal variables are associated with merging companies' performance more than that of non-merging performance (coping programmes, communication media). This could indicate the important variables that play the critical role in the success or failure of merging as well as non-merging companies from the middle managers' point of view. However, even though these associations are higher for the merging or non-merging companies, such differences could have occurred fairly frequently by chance. Therefore, using the Z-test can examine the differences between these associations in merging and non-merging companies.

III. Both in merging and non-merging companies, there is association between company's performance (financial and non-financial) and internal/external variables. However, it is much less than the association between commitment/trust of employee and internal /external variables. Furthermore, the association between commitment/trust of employee and company's performance is relatively high. If we control commitment/trust variable using partial correlation, the association between internal/external variables and companies' performance will be very low and insignificant. This could explain that commitment/trust of employee plays the role of intervening variable between internal/external variables and company's performance. In other words, internal/external variables have influence on the commitment/trust of employee, which in turn will influence the company's performance. This can be clarified by the following diagram (See chapter 9 for justification of the relationship):

Internal/external variables ⟶ employee commitment ⟶ company's performance.

IV. In both merging and non-merging companies, we can notice that the correlation between non-financial performance (after/before or current/three years ago) and employee's commitment/trust (0.64, 0.58; 0.70, 0.60) is always higher than the correlation between financial performance and employee's commitment/trust (0.40, 0.47; 0.55, 0.47). Moreover, we can perceive that the financial correlation before merger is higher than after merger (0.47, 0.40), while non-financial correlation after merger is higher than before merger (0.61, .0.58). This signifies that financial (accounting) performance is short-term oriented, while non-financial (strategic) performance is long-term oriented. This in turn indicates that commitment and trust requires time to be built and, as a result, is not usually present after merger. In other words, the process of developing the employee's commitment is long and arduous.

Table 10.4: Spearman's correlation between company's performance and internal-external variables for merging and non-merging middle manager

Investigated variables	Merging companies +			Non-merging companies		
	Finance perf	Non-fin perf	Commit	Finance perf	Non-fin perf	commit
Employee's stress	-.188	-.253 *	-.464 ***	-.301 **	-.382 ***	-.672 ***
Culture differences	.02	-.143	.290 **	.101	.177	-.053
Justice	.356 ***	.288 ***	.579 ***	.484 ***	.521 ***	.799 ***
Coping programmes	.352 ***	.442 ***	.308 **	.318 **	.389 ***	.424 ***
Communication media	.430 ***	.334 ***	.388 ***	.105	.249 *	.234 *
Communication plan	.223 *	.304 **	.484 ***	.377 ***	.549 ***	.722 ***
Co-ordinatiom plan	.357 ***	.201	.189	.305 **	.412 ***	.615 ***
Understanding environment	.615 ***	.615 ***	.633 ***	.526 ***	.619 ***	.558 ***
Organisation coherence	.473 ***	.549 ***	.750 ***	.328 ***	.563 ***	.675 ***
Commitment and trust	.400 ***	.583 ***	---	.554 ***	.711 ***	---
Financial performance after	---	.650 ***	.400 ***	---	.645 ***	.554 ***
Financial performance before	.809 ***	.565 ***	.469 ***	.457 ***	.362 ***	.468 ***
Non-Financial performance after	.650 ***	---	.614 ***	.645 ***	---	.711 ***
Non-Financial performance before	.589 ***	.694 ***	.583 ***	.382 ***	.611 ***	.610 ***

+ The number of merging companies (N = 44); the number of non-merging companies (N=39).
*** P < .01,
** P < .05,
* P < .10,
P >.10

10.2.2.1 CORRELATION DIFFERENCE IN FINANCIAL PERFORMANCE

The result of the Z-test, as presented in Table 10.5, indicates that only one out of ten variables associated with merging company's financial performance is significantly different at 0.05 level of significance from that of non-merging companies. This variable is communication media. We can conclude that communication media is the critical factor for the success of merging companies. This would not mean that the other variables, either internal (coping programmes, communication plan, commitment and trust) or external (understanding environment, organisation coherence), are not important for the success of mergers/acquisitions from the middle manager point of view. However, these variables seem to be important for both merging and non-merging companies as the association between these variables and company's performance is similar in merging and non-merging companies. This nullifies the uniqueness of these variables to any of the particular groups of companies (merging or non-merging companies). Thus these variables are not unique for the success of merging companies, but they are important and critical for both groups of companies from the middle manager point of view.

Table 10.5: Correlation differences in financial performance and the important factors for mergers' success (Middle management)

Investigated variables	Merging company[a]	Non-merging company	Z-value[b]
Employees' stress	-0.188	-0.301	-0.66402
Culture differences	-0.02	-0.101	-0.44875
Justice	0.356	0.484	-0.86052
Coping programmes	0.352	0.318	0.211405
Communication media	**0.43**	**0.1**	**1.986543**
Communication plan	0.223	0.377	-0.93725
Co-ordination plan	0.357	0.305	0.322351
Understanding environment	0.615	0.526	0.730257
Organisation Coherence	0.473	0.328	0.956565
Commitment and trust	0.4	0.554	-1.1067

[a] Middle mangers in merging companies (N=66); Middle managers in non-merging companies (N=62).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, to reach to the 0.10, 0.05, and 0.01 level of significance respectively (bolded).

10.2.2.2 CORRELATION DIFFERENCES IN NON-FINANCIAL PERFORMANCE

Table 10.6 shows that two out of ten variables associated with non-merging non-financial performance are statistically significantly different at 0.10 level of significance. We should notice that procedural justice was considered as significant even if it does not reach the critical value of the Z-test (1.6), but it is very close to the critical value (1.55), so we consider it as a significant variable. These variables, as illustrated in Table 10.6, are communication plan and procedural justice. These two important factors for a company's success are different from the factors that result from correlation differences in financial performance (communication media). This could explain that non-financial performance (e.g., public image, efficiency of operations) is different from financial performance (e.g., sales growth and stock price) in terms of time dimension. In other words, non-financial performance is a long-term oriented criterion, while financial performance is a short-term oriented criterion. Moreover, the significant factors attributable to the correlation differences in non-financial performance would represent unique factors for the success of non-merging companies rather than merging companies, as the Z-value is a negative value. Does this mean that there are no unique factors for the success of mergers/acquisitions from a middle management point of view?

The answer to the question, from the researcher's point of view, is no. There are unique factors that would be critical for the success of mergers/acquisitions, but the findings above (Table 10.6) did not demonstrate that such unique factors could be explained by the following reasoning:

I. The association between company performance and internal/external variables might not be a direct relationship, but there is an intervening variable that mediates such a relationship. The mediated variable would be employee commitment/trust, as we discussed above. More detail will be given when we address the correlation differences in employee commitment /trust.

II. Middle managers in merging companies would be in a position to tolerate the most drastic actions after mergers since they expect such upheaval change and they would prepare themselves to adapt to and absorb the shock of the drastic change that was brought about by mergers/acquisitions. Therefore, middle managers who live with such dramatic situations would be more able to tolerate and absorb the difficulties than those who do not meet such situations (non-merging companies. For example, middle managers expect that there will be layoff and relocation procedures, and that systems change after mergers/ acquisitions. Therefore, such expectation could act as a cushion that would mitigate the impact of mergers/acquisitions on middle managers.

Comparing findings from a top management point of view (Table 10.2 and Table 10.3) with those from a middle management point of view (Table 10.5 and Table 10.6) we can come up with the following:

I. Factors identified as unique for the success of merger/acquisitions from the top point of view to a great extent differ from that of the middle manager point of view in two aspects: the number of the factors and to which groups they are unique.

II. According to Spearman's correlation (Table 10.4) and Z-value, middle managers do not show much concern to culture issues, while they are of primary concern to top managers, especially in the long-run. These findings can be explained by what Charrerjee et al (1992) stated, that top management team subculture seems to represent the value system of the majority in a company. In other words, the top management team's culture may be a sufficient expression of the organisation's overall culture. Moreover, the top managers of an organisation play a critical role in shaping and establishing the culture of their organisation (Schein, 1985; Deal and Kennedy, 1982). Also, the significance of the top management culture is proved by a number of recent research papers conducted in a non-merging context which found a substantial association between the culture of the top management team and a firm's financial performance (Dennison, 1990; Covin, 1985; Covin and Slevin, 1988). Furthermore, others have argued that culture differences at the top management level are in all likelihood to have an immediate impact on the merging company capability to achieve the financial potential of the merger (Sales and Mirvis, 1984; Davis, 1968). Additionally, in order to study the consequences of culture differences, it is crucial that there is a contact between the members of the two merging companies. The possibility of such contact in mergers in terms of amount and intensity is greatest at the top management level (Chatterjee and et al, 1992). This is because the top managers are regularly contacted throughout the negotiation and transitional stages, while contact with middle managers may not occur until later in the transitional stages, if at all (Schweiger, Walsh, 1990). Finally, Hubbard (1999) stated that the top priority concern of top management in addition to their job security are the culture issues, while middle managers are often concerned, in addition to their job security, about their colleagues and career path.

Table 10.6: Correlation differences in non-financial performance and the important factors for merger success (Middle manager)

Investigated variables	**Merging company[a]**	**Non-merging company**	**Z-value[b]**
Employee's stress	-0.253	0.382	-0.79373
Culture differences	-0.143	0.177	-0.19264
Justice	**0.288**	**521**	**-1.55269**
Coping programmes	0.442	0.389	0.353813
Communication media	0.334	0.249	0.513333
Communication plan	**0.304**	**0.549**	**-1.67302**
Co-ordination plan	0.201	0.412	-1.29272
Understanding environment	0.615	0.619	-0.03588
Organisation coherence	0.549	0.563	-0.1115
Commitment and trust	0.583	0.711	-1.22648

[a] Middle mangers in merging companies (N=66); Middle managers in non-merging companies (N=62).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, respectively to reach to the 0.10, 0.05, and 0.01 level of significance (bolded).

10.2.2.3 CORRELATION DIFFERENCES IN EMPLOYEE COMMITMENT/TRUST

Table 10.7 shows that four out of thirteen variables associated with employee's commitment/trust are statistically significantly different at 0.10, 0.05, and 0.01 level of significance. These variables would be ranked according to their importance (based on Z-value) as follows:

Co-ordination plan, procedural justice, communication plan and employee's stress. Three of these unique variables are internal variables (justice, communication plan, and employee's stress) and only one is an external variable (co-ordination plan). This signifies the importance of internal variables for gaining employee's commitment and trust if these factors are managed effectively. We can notice that all of these critical variables have a negative sign. This indicates that these variables are unique for non-merging rather than merging companies for supporting employee's commitment/trust. In other words, these identified critical variables seem to be more important for non-merging companies to realise and maintain committed ant trusted employees than for merging companies. From the middle manager's point of view, the important question to be raised here is whether identified critical variables have any impact on the employee's commitment/trust in the context of mergers/acquisitions?

The findings (Table 10.4) tell us that there are statistically significant associations (moderate-high) between merging internal/external variables and the employee's commitment/trust. Also an employee's commitment/trust is highly and positively associated with merging financial and non-financial performance. This indicates the importance of internal as well as external variables for ensuring the employee's commitment/trust. This in turn will positively influence merging financial and non-financial performance. However, correlation differences in merging and non-merging companies show no identified unique factors for ensuring the employee's commitment/trust in merging companies. This can be justified by the following reasoning:

I. The middle managers' position involves complex managerial roles as they must take direction from the top and disseminate it downward to their reporting employees. This complexity would be exacerbated during mergers/acquisitions, since middle managers are sometimes targeted to become recipients as they have a duty to implement the acquirer's wishes. Furthermore, middle managers are most vulnerable to role changes as usually they have had little impact in their job definition and yet have to lose in terms of career path and job responsibilities (Hubbard, 1999). Moreover, middle mangers reported very multifaceted concerns where they worry about everything – not only their own job security but also that of their work group, procedural, policy, career, status as well as culture issues during the merger process (Hubbard, 1999). Therefore, the job complexity and role ambiguity often faced by middle managers in merging companies puts them in a position in which they seem to be unsure about their future in the new companies, whereas for those in non-merging companies their situation is relatively stable, less complex and less ambiguous. This could at least partly explain the higher correlation between identified critical variables and the employee's commitment/trust in non-merging companies compared to merging companies.

II. It is true that every merger/acquisition is unique, yet there are some simple truths which apply to most cases. The most contentious truth is "that people expect change after acquisition" (Hubbard, 1999: p.3). Therefore, they will put up with upheaval programmes as long as they are treated professionally. Professionalism in a mergers/acquisitions context transparently means clear process, honest communication and empathy (Hubbard, 1999). The change expectation would alleviate the impact of mergers/acquisitions. This expectation is not available for non-merging employees as it is for merging employees. Therefore, middle managers in non-merging companies might be more sensitive to any change in related procedures, relocation, status etc. than middle managers in merging companies. This could elucidate, partly, the higher correlation between identified critical variables and the employee's commitment/trust in non-merging companies compared to merging companies.

Table 8.7: Correlation differences in employee's commitment/trust and the important factors for merger success (Middle manager)

Investigated variables	Merging company[a]	Non-merging company	Z-value[b]
Employee's stress	**-0.464**	**-0.672**	**-1.72215**
Culture differences	-0.29	-0.05	1.371647
Justice	**0.579**	**0.799**	**-2.39997**
Coping programmes	0.309	0.424	-0.73467
Communication media	0.388	0.234	0.94387
Communication plan	**0.484**	**0.722**	**-2.11736**
Co-ordination plan	**0.189**	**0.615**	**-2.90116**
Understanding environment	0.633	0.558	0.643046
Organisation coherence	0.75	0.675	0.845067
Financial performance before	0.469	0.554	-0.63642
Financial performance after	0.4	0.468	-0.4631
Non-financial performance before	0.614	711	-0.95988
Non-financial performance after	0.583	610	-0.23128

[a] Middle managers in merging companies (N=66); Middle mangers in non-merging companies (N=62).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, respectively to reach to the 0.10, 0.05, and 0.01 level of significance (bolded).

10.3 SUSTAINING COMPETITIVE ADVANTAGE IN THE CONTEXT OF MERGERS AND ACQUISITIONS

As discussed in the methodology chapter, merging company financial performance after the merger has been measured by five indicators, the same being used to evaluate the merging performance before the merger. Three indicators also have tested non-financial performance after merger, the same indicators being used to evaluate non-performance before merger. The same thing has been applied to non-merging companies. Current financial performance of non-merging companies has been measured by five indicators, the same indicators evaluating the performance three years ago. Three indicators have measured current non-financial performance and the same indicators were used to evaluate the non-financial performance three years ago, as shown in appendix 3. For the purpose of facilitation, we will call before-merger performance and the company performance three years ago previous performance, while we will call current performance and after-merger performance current performance.

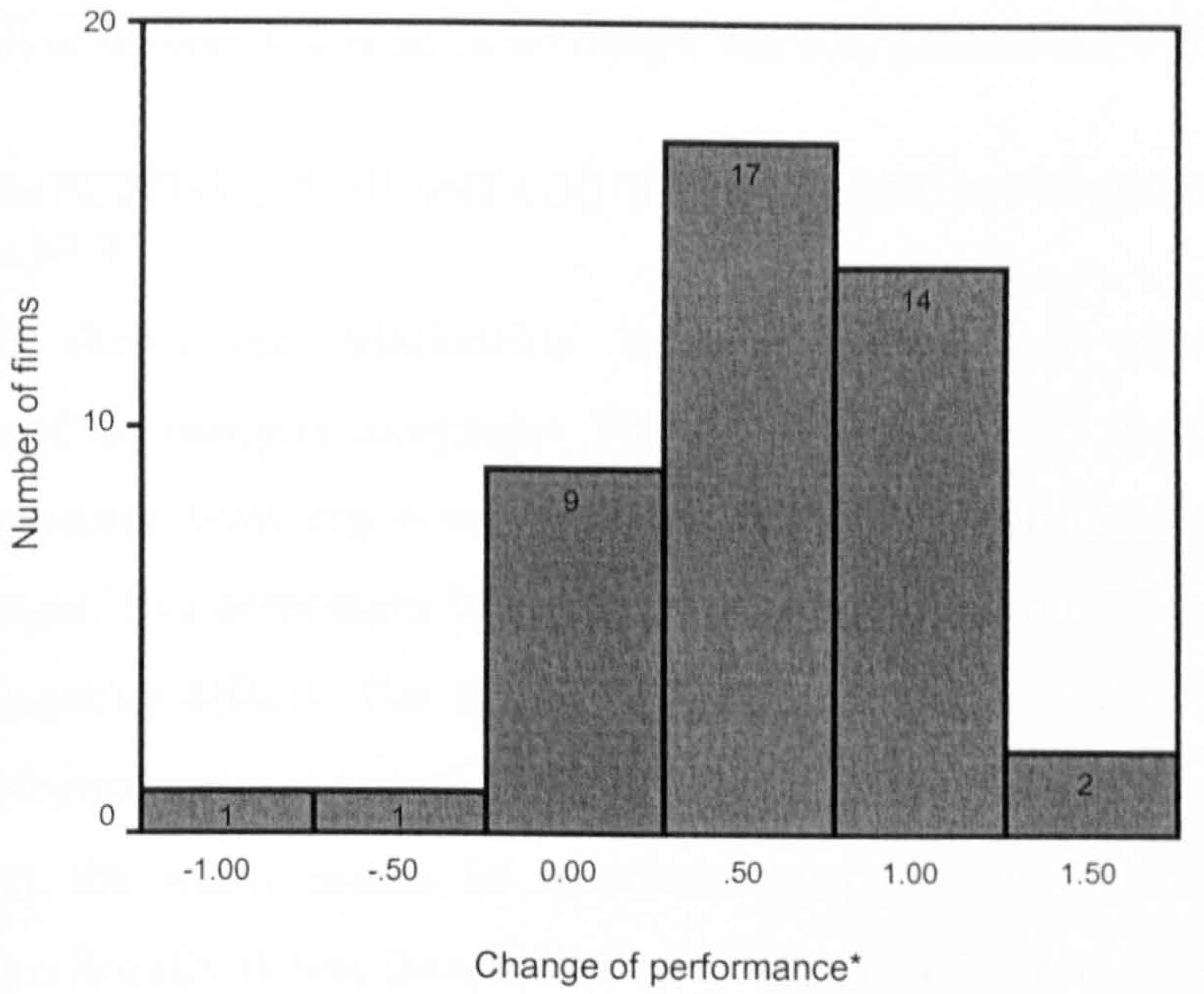
We should note that the analysis conducted in the previous chapters was based on a company's current performance. Therefore, we can measure the change in the merging company performance by comparing the current performance to the previous one.

10.3.1 COMPETITIVE ADVANTAGE IN MERGING/ACQUIRING COMPANIES

10.3.1.1 COMPETITIVE ADVANTAGE THROUGH FINANCIAL PERFORMANCE

Figure 10.1 shows the relationship between current and previous financial performance in top management of merging companies. The change in the financial performance has been calculated by subtracting the arithmetic mean of the previous financial indicators from that of the arithmetic mean of the current one. Consequently, zero indicates that there is no change in the financial performance before and after the mergers, while positive results signify an improvement of the financial performance after the mergers, and negative results indicate a decrease in the financial performance after the mergers. Figure 10.1 tells us that there are far more companies in this group (merging companies) that on the whole made an improvement in their financial performance after mergers. In other words, many of the merging cases investigated have reported that their financial performance has improved after the mergers.

Figure 10.1:
Difference in financial performance after and before mergers – Top management



*Arithmetic difference in financial performance after and before merger

The mean differences in financial performance after merger and before merger were tested using the t-test. Results, as shown in table 8.8, indicate that the mean scores of financial performance after merger have increased significantly at less than .01 level of significance from 3.03 before merger to 3.58 after merger. In general, this indicates that merger/acquisition strategies would help merging companies to improve their financial performance at least in the short term. However, figure 8.1 shows that nine companies have obtained zero improvement after merger. This means that these companies have the same level of performance before and after the mergers. Two companies show loss after the mergers, since the failure in mergers/acquisitions (as illustrated in chapter 1) was defined as when the two combined companies do not live up to their financial potential. Thus, when the two combined companies achieve no improvement in their financial performance (Zero) after the merger/acquisition compared to before the merger/acquisition, in this case the merger/acquisition represents a failure. Consequently, from a top-management point of view, there are eleven merger cases out of forty-four considered as failures (25%).

Table 10.8: After and before merger financial performance (Paired-samples t-test)

	Average performance	Average difference	t-test value	Sig 2-tailed
After merger	3.58			
Before merger	3.03	.55	8.027	.000

The correlation between before and after merger financial performance =.85 Sig. .000

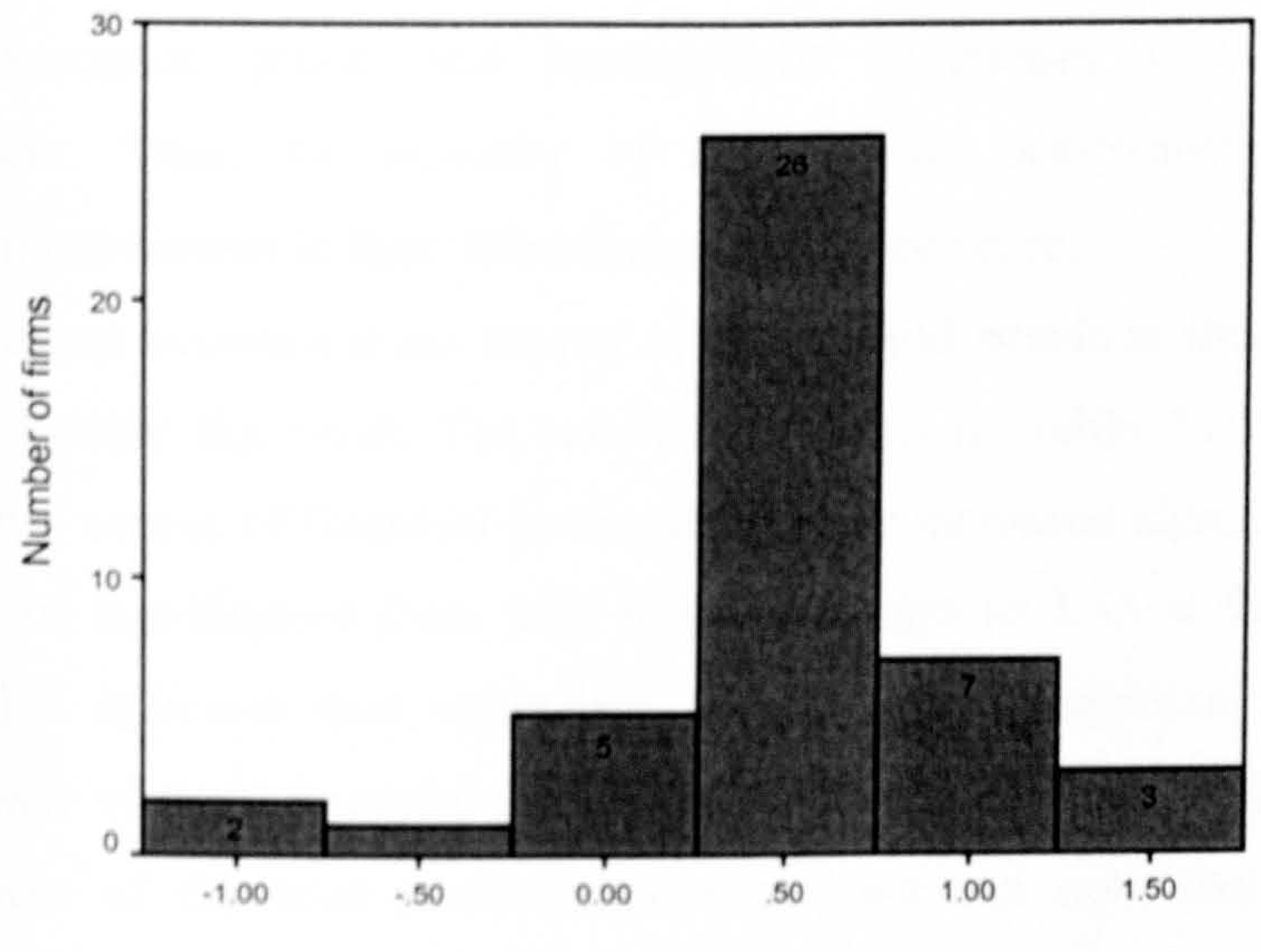
10.3.1.2 COMPETITIVE ADVANTAGE THROUGH NON-FINANCIAL PERFORMANCE

Figure 10.2 shows the relationship between before and after non-financial performance of the merging companies. The figure demonstrates that thirty-six (82%) merging companies have improved (positive effect) their non-financial performance after the merger, five companies have stayed unchanged (zero effect), and only three have lost (negative effect). The mean differences before and after merger in non-financial performance were tested using the t-test. The result, as shown in Table 10.9, signifies that the mean scores of non-financial performance after merger have improved significantly at less than .001 level of significance from 3.35 before merger to 3.83 after merger. In other words, merger strategies would have enabled merging companies to support their non-financial performance, from the top point of view.

If we compare figure 10.1, which represents the differences in financial performance, with figure 10.2, which represents the differences in non-financial performance, we can note that the majority of merging companies have achieved improvement in both financial and non-financial performance. However, the degree of improvement of the financial performance somewhat differs from that of non-financial performance. For example, the number of merging companies improving their non-financial performance by about 0.50 is 26, while 17 companies have improved their financial performance by the same degree. Moreover, the number of merging companies that have improved their non-financial performance by about one (1.00) is only seven, while 14 companies have improved their financial performance by the same degree. These differences might explain that the nature of financial performance differs from that of non-financial performance. In other words, financial (accounting) performance such as sales growth and share price would change (affect) after the announcement of the merger (short-term oriented), while non-financial performance such as public image and quality of service would change (influence) after implementing the merger process (long-term oriented). However, the improvement difference of financial and non-financial performance is not statistically significant since Pvalue is greater than 0.10 (as shown in Table 10.10). In other words, differences in improvement of financial and non-financial performance could occur by chance, that is to say, financial and non-financial performance has improved significantly by the same degree.

From the above discussion, we can say that the merger/acquisition strategies have enabled Saudi merging companies to improve and sustain their improvement after merger as their financial and non-financial performance has been supported after merger. Therefore, merger/acquisition strategies would enable Saudi companies to obtain competitive advantage over their corresponding non-merging companies. This will be proved in the next section, when we discuss the change in non-merging companies' financial and non-financial performance.

Figure: 10.2: Difference of non-financial performance after and before mergers



*arithmetic difference in non-financial performance after and before merger

Table 10.9: Before and after non-financial performance (Paired-samples t-test)

	Average performance	Average difference	t-test value	Sig. 2-tailed
After merger	3.83			
Before merger	3.35	.48	6.177	.000

The correlation between before and after merger non-financial performance = .80 Sig. .000

Table 10.10: Difference between financial and non-financial performance (Paired-samples t-test)

	Average difference	difference	t-test value	Sig. 2-tailed
Financial performance	.55	.06	1.32	.19
Non-financial performance	.48			

10.3.2 COMPETITIVE ADVANTAGE ON NON-MERGING COMPANIES

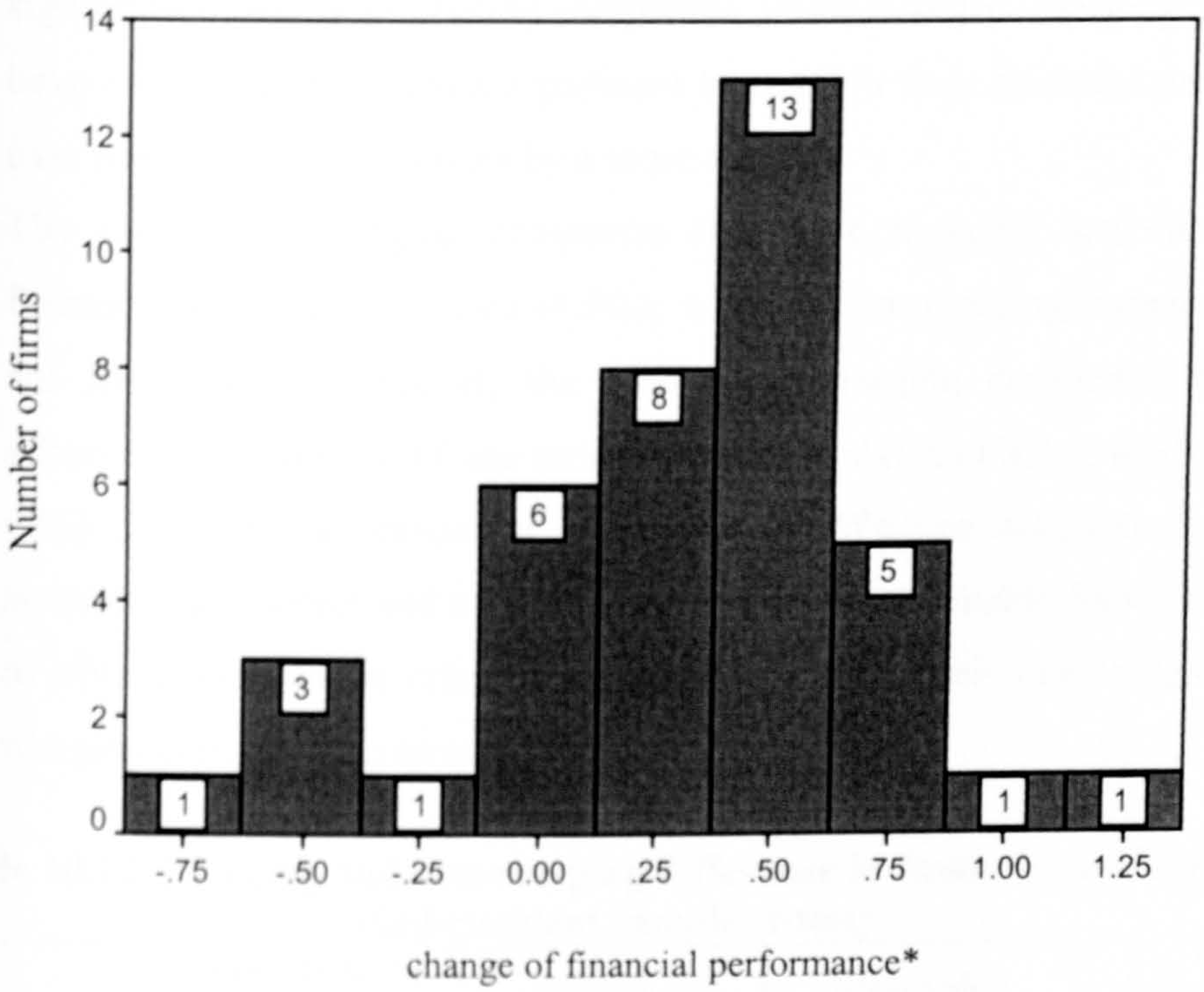
For the purpose of giving evidence that merger strategies would enable Saudi companies to obtain competitive advantage, change in financial and non-financial performance (pervious-current) of equivalent non-merging companies will be analysed.

10.3.2.1 COMPETITIVE ADVANTAGE THROUGH FINANCIAL PERFORMANCE

Comparing previous financial performance to the current one, figure 10.3 shows us that five companies (13%) have incurred loss, six companies (15%) have not changed their performance score, and twenty-eight companies (72%) have achieved improvement. Thus, the majority of non-merging companies investigated have achieved improvement in their financial performance score.

The differences between mean scores of current and previous financial performance were tested using the t-test. The results, as shown in Table 10.10, signify that the current mean scores of financial performance have increased significantly at less than .001 level of significance from 3.13 three years ago to 3.45 at the present time. In general, this indicates that equivalent non-merging companies investigated show improvement of their financial performance. However, if we analyse the degree of improvement of financial performance score, we can note that eight companies (20.5%) have achieved negligible improvement (about 0.25 score improvement), thirteen companies have achieved 0.50 score improvement, and only two companies (5%) have achieved one score (1.0) or above improvement.

Figure 10.3: Current and previous financial performance in non- merging companies



*Arithmetic difference between current and previous financial performance

Table 10.11: Current and previous financial performance of non-merging companies - (Paired-samples t-test)

	Average performance	Average difference	t-test value	Sig 2-tailed
Current performance	3.45	.32	4.73	.000
Previous performance	3.13			

The correlation between current and previous financial performance = .73 Sig. .000

Comparing change in merging companies' financial performance to that of non-merging companies, we find the following results:

I. The average difference between after/current and before/previous financial performance is 0.55 in merging companies, while it is only 0.32 in non-merging companies. Thus, the final average difference is 0.23 in favour of merging companies. The final average difference between merging and non-merging financial performance was tested by using the two independent samples t-test. The result, as shown in Table 10.11, indicates that there is a statistically significant increase in the differences between current and previous financial performance of merging companies at less than .05 level of significance over non-merging companies. In other words, merging companies have on average obtained a significant increase in their financial performance over non-merging companies by a score of 0.23.

II. The number of merging companies that have incurred loss in terms of financial performance is two (4.5%); while in non-merging companies there are five (13%). Moreover, the number of merging companies that have achieved improvement of one score and more is sixteen (36%), while only two (5%) non-merging companies have done so. We can conclude from these statistics that merger and acquisition strategies would enable Saudi companies to obtain and sustain competitive advantage over their corresponding non-merging companies in terms of financial performance.

Table 10.12: Merging and non-merging difference in financial performance (Independent samples t-test)

	Average score difference	difference	t-test value	Sig. 2-tailed
Merging companies	.55	.23	2.38	.02
Non-merging companies	.32			

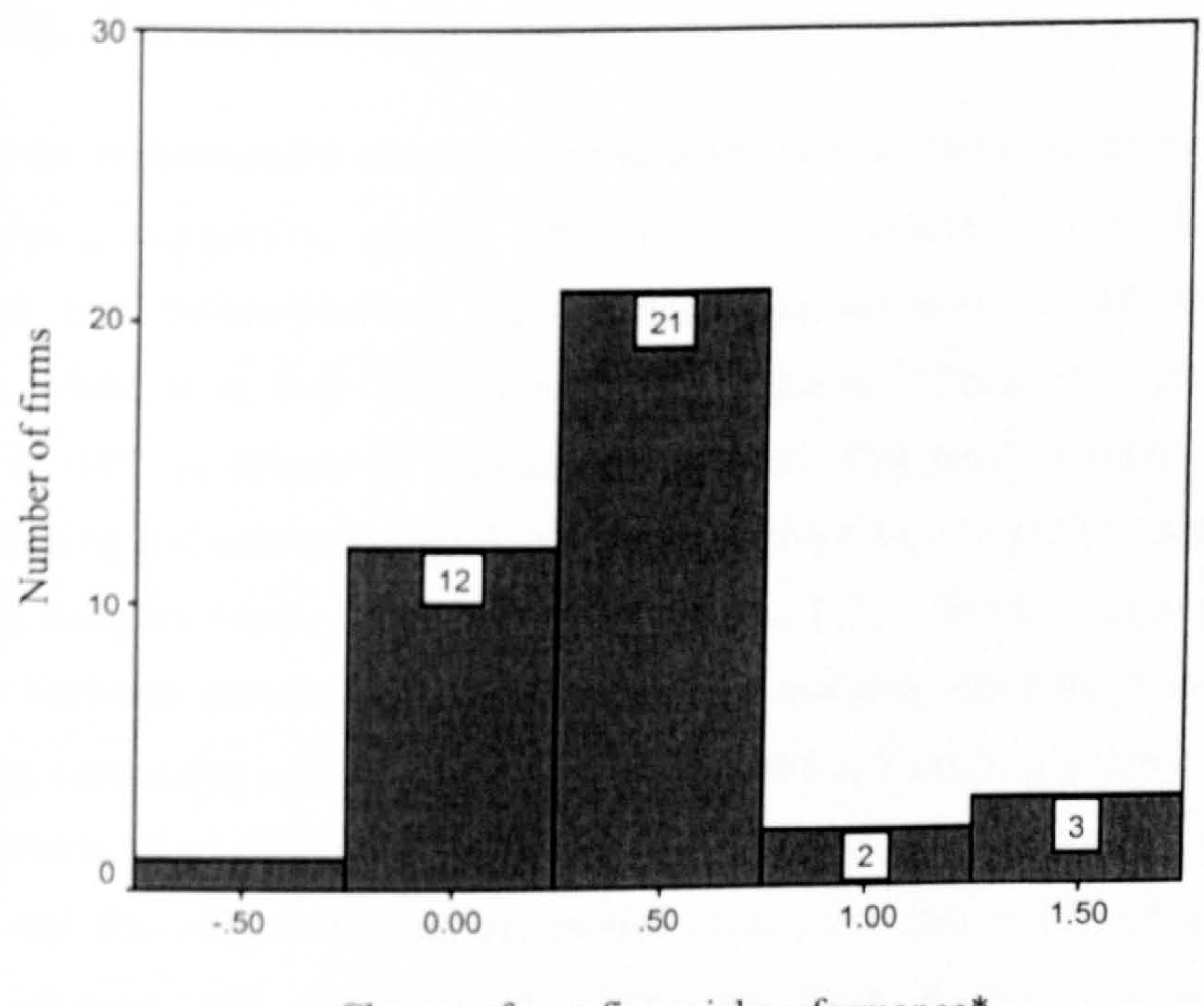
10.3.2.2 COMPETITIVE ADVANTAGE THROUGH NON-FINANCIAL PERFORMANCE

Comparing previous non-financial performance to the current one, figure 10.4 shows that twelve companies (31%) have not changed their average non-financial performance score, twenty six companies (66%) have improved their average performance score, five (13%) of which have improved their average performance by one score or more. Therefore, the majority of non-merging companies investigated have achieved improvement in their non-financial performance score.

The differences between mean scores of current and previous non-financial performance were tested using the t-test. The result, as shown in Table 10.12, signifies that the current mean scores of non-financial performance have increased significantly at less than .001 level of significance from 3.27 three years ago to 3.68 at the present time. This indicates that equivalent non-merging companies investigated show a statistically significant improvement in their non-financial performance.

Comparing the difference in financial performance (figure 10.3) to that of non-financial performance (figure 10.4), we can note from the figures that there are some differences in the degree of improvement of financial and non-financial performance. However, the average difference between financial and non-financial performance is not statistically significant as the Pvalue is greater than 0.10 (as shown in Table 10.14). In other words, the difference in improvement of financial and non-financial performance could happen by chance. More precisely, financial and non-financial performances have improved statistically significantly to the same degree.

Figure 10.4: current and previous non-financial performance in non-merging companies



*Arithmetic difference between current and previous non-financial performance

Table 10.13: Current and previous non-financial performance of non-merging companies (Paired-samples t-test)

	Average performance	Average difference	t-test value	Sig. 2-tailed
Current performance	3.68	.41	6.2	.000
Previous performance	3.27			

The correlation between current and previous non-financial performance = .78 Sig. .000

Table 10.14 Difference between financial and non-financial performance (Paired-sample t-test)

	Average difference	Difference	t-test value	Sig. 2-tailed
Financial performance	.32	.09	1.39	.17
Non-financial performance	.41			

Comparing the improvement of merging companies' non-financial performance to that of non-merging companies, we can perceive that the average difference between after/current and before/previous non-financial performance is .48 in merging companies, while it is 0.41 in non-merging companies. Thus, the final average difference is 0.07 in favour of merging companies. The final average difference between merging and non-merging financial performance was tested by using the two independent samples t-test. The result, as shown in Table 10.15, indicates that the differences between non-financial performance of merging companies and that of non-merging companies are not statistically significant as Pvalue is greater than 0.10. In other words, the difference between non-financial performance of merging companies and that of non-merging companies could have occurred by chance. More precisely, merging and non-merging companies have achieved a statistically significant improvement in their non-financial performance to the same degree.

Table 10.15: Merging and non-merging difference in non-financial performance (Independent samples t-test)

	Average difference	Difference	t-test value	Sig. 2-tailed
Merging companies	.48	.07	.71	.476
Non-merging companies	.41			

Up to now, we have given evidence that merger and acquisition strategies would/could have enabled Saudi merging companies to statistically significantly improve their financial and non-financial performance after merger. Furthermore, merging companies have achieved a statistically significant increase in the improvement of their financial performance compared with non-merging companies. In other words, merging companies have achieved and maintain a competitive advantage over their corresponding non-merging companies with respect to financial performance.

Factors that have played a vital role in improvement and the maintenance of such improvement will be discussed in the next section.

10.4 FACTORS RESPONSIBLE FOR ACHIEVING AND MAINTAINING COMPETITIVE ADVANTAGE IN THE CONTEXT OF MERGERS AND ACQUISITIONS

For the purpose of identifying the factors that help sustain the performance improvement that has been achieved by merging companies in financial and non-financial performance, Spearman's (rho) will be utilised to compute the correlation coefficients between the change of company performance (financial and non-financial) and the study of internal and external variables for both merging and non-merging companies. This will demonstrate the strength and direction of the relationship between the study variables and the change of companies' performance. In other words, this would identify the factors that have more influence on the improvement of companies' performance (financial and non-financial).

10.4.1 COMPETITIVE ADVANTAGE USING Z-VALUE

Table 10.15 shows that the change of merging companies' performance (financial and non-financial) is associated positively with the following variables: procedural justice, integration approach, coping programmes, communication media, communication plan, co-ordination plan, organisation coherence, differentiation through human resource, and differentiation through size; and negatively associated with culture difference.

Comparing the changes in these relationships and the study of internal-external variables of the merging companies performance to those of non-merging companies, critical factors that might sustain the improvement that has been obtained by the investigated merging companies in financial and non-financial performance could be identified. Findings that have been presented in Table 10.15 indicate the following:

I. The associations between improvement in merging companies' financial performance and studies of internal-external variables (whether these associations are high, moderate, or very low) are similar to those of non-financial performance. This indicates that there is a high relationship between the change of financial and the change of non-financial performance. In other words, the variables that play, or do not play, a critical role in the improvement of financial performance also play a similar role in the improvement of non-financial performance.

II. It can be perceived that improvement in the financial and non-financial performance is highly associated with only one variable, the differentiation through human resource, and associated at a moderate-low level with some of the internal variables such as culture differences, integration approach, justice, coping programmes, communication plan etc., as well as some of the external variables such as co-ordination plan, and differentiation through size. Lastly, the correlation is very low and insignificant with differentiation through government support and understanding environment. This could signify that internal variables have more influence on the improvement of financial and non-financial performance that has been achieved by investigated merging companies.

III. It can be noted that associations in the improvement of merging companies' performance with internal-external variables are stronger and more significant than those of non-merging companies. This would point to the critical variables that have much influence in the sustainability of the improvement of financial and non-financial performance that have been achieved by the investigated merging companies. However, even though these associations are higher in favour of the improvement of merging companies performance, such differences could have happened fairly frequently by chance. Therefore, the Z-transformation test has been utilised to examine the differences between the correlation coefficients in merging and non-merging companies.

Table 10.16: Spearman's correlation between the change of company's performance and internal-external variables for merging and non-merging top management

Variables	Merging companies[a]		Non-merging companies	
	Financial performance	Non-financial performance	Financial performance	Non-financial performance
Culture differences	-.336**	-.228	.05	-.017
Justice	.329**	.334**	.272*	.284*
Integration approach	.290*	.278*	---	---
Coping programmes	.364**	.372**	.327**	.268*
Communication media	.371**	.320**	.161	.033
Communication plan	.348**	.338**	.138	.070
Co-ordination plan	.317**	.331**	-.171	-.099
Understanding environment	.083	.102	.032	.035
Organisation coherence	.349**	.361**	.157	.155
Differentiation through human resource	.492***	.623***	.211	.066
Differentiation through size	.293*	.302**	.020	.096
Differentiation through Government support	.173	.110	-.033	-.093

[a]The number of merging companies (N=44); the number of non-merging companies (N=39).

*** P < .01,
** P < .05,
* P < .10,
P >.10

The result of the Z-test, as presented in Table 10.17, signifies that there are no variables associated with change of financial performance that are statistically different at any identified (acceptable) level of significance (.01, .05, or .10). In other words, comparing correlation coefficients of merging and non-merging companies as to the change of financial performance indicates that there are no statistically significant unique variables that would be attributed for the improvement of financial performance of merging or non-merging companies as all of the Z-value of the investigated variables are less than the minimum critical value (1.6). However, there are a number of variables where the Z-value is close to the critical value. This would give them higher rank over the other variables, which have much less Z-value. These variables will be ranked based on the magnitude of their Z-value from higher to lower as follows: differentiation through human resource, cultural difference, differentiation through size. Therefore, we can say that these three variables make a greater contribution to the improvement in the financial performance which has been achieved by investigated merging companies. In other words, human resource, culture, and company size are influential factors that would have supported merging companies to maintain their improvement over their equivalent non-merging companies (as we have proved in the previous sub-section that merging companies have achieved a significant increase in financial improvement over their equivalent non-merging companies).

Table 10.17 shows that there is only one statistically significant unique factor that could be attributed to the improvement of non-financial performance achieved by investigated merging companies. This factor is differentiation through human resource. Maintaining the improvement of non-financial performance that has been achieved after mergers could be attributed to the effective management of human resource practices, fostering employees' skills and knowledge through learning-by-doing, and supporting the culture of creativity and innovation in the merging companies. These three elements make up the differentiation through human resource factor. Moreover, there are two variables that could have major influence on the improvement of non-financial performance obtained by merging companies. These variables are communication media and communication plan. As illustrated in Table 10.17, in the non-financial performance column, these variables are not statistically significantly different at any acceptable level, but we consider them as influential factors on improvement for the following two reasons:

I. The Z-value of these variables is much higher (1.31, 123) than the remaining insignificant variables. In other words, the Z-value of these variables is relatively close to the minimum critical value (1.6).

II. These variables are positively, statistically significant at less than .001 level of significance, related to the improvement of non-financial performance.

These two factors (communication media and plan) as well as the unique factor (differentiation through human resource) are internal factors. Moreover, we can perceive that the external variables such as understanding environment as well as differentiation through government support play a trivial role in the improvement of financial and non-financial performance. This is because the magnitude of their Z-value is very low (Table 10.17) and the relationship between them and the improvement of financial and non-financial performance is very low and statistically insignificant (Table 10.16). Consequently, we can conclude that the internal factors represented by effective management of human resource and an effective communication strategy are the main source of competitive advantage that would enable merging companies to sustain their improvement after merger. These findings are consistent with strategic and mergers literature. (See for example, Lado, 1994; Barney, 1991; Reed and Depillippi, 1990; Schweiger and Weber, 1989; Khatri, 2000; Pfeffer, 1994; Pfeffer, 1995; Wright et al, 1994).

Up to now, we have discussed the important factors that would enable merging companies to sustain their improvement after mergers. In the next section we will discuss the critical factors that would support excellent and above average merging companies' performance in maintaining such excellent as well as above average performance after mergers.

Table 10.17: Correlation differences of the change in both financial and non-financial performance and critical factors for sustaining competitive advantage

Variables	Financial performance			Non- financial performance		
	Merging companies[a]	Non-merging companies[a]	Z-value	Merging companies	Non-merging companies	Z-value[b]
Culture differences	-.336	-.05	1.3113	-.228	-.017	.9417
Justice	.329	.272	.2255	.334	.284	.2421
Coping programmes	.364	.327	.1839	.372	.268	.5078
Communication media	.371	.161	.9903	.320	.033	1.3077
Communication plan	.348	.138	.9821	.338	.070	1.2333
Co-ordination plan	.317	.171	.6812	.331	-.099	1.0709
Understanding environment	.083	.032	.2241	.102	.035	.2950
Organisation coherence	.349	.157	.9019	.361	.155	.9706
Differentiation through human resource	.492	.211	1.4207	**.623**	**.066**	**2.9030**
Differentiation through size	.293	.020	1.2294	.302	.096	.9430
Differentiation through Government support	.173	.033	.6208	.110	.093	.0753

[a] Merging companies' (N=44); non-merging companies (N=39).
[b] Z-value must be equal to or greater than 1.6, 1.96, and 2.57, respectively to reach to the 0.10, 0.05, and 0.01 level of significance (bolded).

10.4.2 COMPETITIVE ADVANTAGE USING LOGISTIC REGRESSION ANALYSIS

We have noted in the previous sections in this chapter that the majority of merging companies have achieved a statistically significant improvement in their financial and non-financial performance after mergers. However, these levels of improvement are different among investigated merging companies (see figure 10.1 and 10.2), some of which achieved a minor improvement score, some a moderate improvement and others a high improvement score. To identify the factors responsible for the high and above-average improvement, logistic regression results will be shown. In chapter 9, we have given detailed analysis of logistic regression findings. Here, we will present the findings of logistic regression models in financial and non-financial performance and relate them to the improvement of merging companies' performance from a top management point of view.

We have developed two logistic regression models, which represent the two dummy dependent variables, for each dependent variables of the study (financial and non-financial performance). The dummy dependent variables, which are created for financial performance, are:

I. TMPRYAD1: we coded (1) if a company performance after merger is excellent, (0) otherwise.

II. TMPRYAD2: we coded (1) if a company performance after merger is above average or excellent, (0) otherwise.

The logistic models that represent the two dummy variables (TMPRYAD1 and TMPRYAD2) are presented in Table 10.

Table 10.18: Critical factors for excellent and above average financial performance -merging companies

Variables	Dummy dependent variables							
	TMPRYAD1				TMPRYAD2			
	Exp (B)	Sig	Cox & Snell R square	Nagelk R square	Exp (B)	Sig	Cox & Snell R square	Nagelk R square
Differentiation by Human resource[a]	1.69	.02	.336	.47	--	--	--	--
Communication plan[a]	1.83	.036			--	--	--	--
Culture compatibility[a]	1.09	.097			--	--	--	--
Communication plan[b]	--	--	--	--	1.71	.002	.442	.641
Integration approach[b]	--	--	--	--	1.32	.034		
Understanding environment[b1]	--	--	--	--	1.21	.006	.321	.465
Culture compatibility[b1]	--	--	--	--	.867	.025		

[a] The Chi-square value of the model (TMPRYAD1) is 18.035 Sig. .000

[b] Two models have been developed for TMPRYAD2 Because of the problem of multicolliniarity, The Chi-square value of the first model of (TMPRYAD2) is 25.8 Sig. .000

[b1] The Chi-square value of the second model of (TMPRYAD2) is 17.017 Sig. .000

Figure 10.1 shows us that fourteen merging companies have achieved one score financial performance improvement (above average financial improvement), and two companies have achieved 1.5 score financial performance improvement (excellent improvement) after mergers. To identify the factors that would have much influence on such excellent and above average improvement, logistic regression models have been developed for each of these two groups (excellent and above average performers).

Table 10.18 presents the factors that have statistically significantly entered the logistic regression models at less than 0.01 level of significance for excellent and above average performance groups. The factors that have critical influence on financial performance on excellent merging companies (TMPRYAD1) are differentiation through human resource, effective communication plan, and culture compatibility. These three factors would have accounted for about 40% of the variation of the excellent financial performance of merging companies. Moreover, the relative importance among these three factors would be ranked on the basis of the magnitude of their Exp(B). Thus, differentiation through human resource (1.69) is at the top of the list, then communication plan (1.38), and finally culture compatibility (1.09). Consequently, we can say that any unit increase in the score of differentiation through the human resource variable will produce a financial increase for excellent performance merging companies by 1.69 score. The same applies with the other two factors. Therefore, the excellent improvement (1.5 score or more) that has been achieved by some companies after mergers could be partly attributed to the effective management of human resource, effective communication plan, and the compatibility of the two merging companies' culture. For merging companies to achieve excellent improvement in their financial performance and maintain such improvement after mergers, these three influential factors have to be of great concern in the minds of the decision-makers of the two companies intending to merge at the initial stage of the merger. We can note that all three influential factors are internal. Thus, we can conclude that internal factors are crucial for achieving and sustaining excellent improvement after mergers.

Regarding above average performance (TMPRYAD2), two not one logistic regression models have been developed because of the problem of multicolliniarity. Two factors statistically have entered the first model at less than .001 level of significance. These factors are communication plan and integration approach. These two factors would have accounted for about 55% of the variation of the above average financial performance of merging companies. Moreover, the relative importance of these two factors would be ranked on the basis of the magnitude of their Exp(B) (see Table 10.18). Also, two factors statistically have entered the second model at less than .001 level of significance. These factors are understanding environment and culture compatibility. These two factors would have accounted for about 40% of the variation of the above average financial performance of merging companies. Moreover, the relative importance of these two factors would be ranked on the basis of the magnitude of their Exp(B) (see Table 10.18). For example, any unit increase of the score of communication plan could generate an improvement in above average financial performance merging companies by a score of 1.71. The same applies with other influential factors in the first and second model. Therefore, we would conclude that the above average improvement (one score improvement) achieved by some companies after merger may be partly attributed to an effective communication plan, effective integration plan, recognising and understanding the business environment, and the compatibility of two merging companies' culture. We can note that three out of the four critical factors are internal. This indicates that internal factors are crucial for merging companies to achieve above average financial performance improvement after merger.

The dummy dependent variables, which are created for non-financial performance, are:

I. TMPRXAD1: we coded (1) if a company performance after merger is excellent, (0) otherwise.

II. TMPRXAD2: we coded (1) if a company performance after merger is above average or excellent, (0) otherwise.

The logistic models that represent the two dummy variables (TMPRXAD1 and TMPRXAD2) are presented in Table 10.19.

Table 10.19: Critical factors for excellent and above average non-financial performance -merging companies

Variables	Dummy dependent variables							
	TMPRXAD1				TMPRXAD2			
	Exp (B)	Sig	Cox & Snell R square	Nagelk R square	Exp (B)	Sig	Cox & Snell R square	Nagelk R square
Differentiation by Human resource[a]	3.25	.017	.336	.47	--	--	--	--
Communication plan[a]	1.97	.013			--	--	--	--
Coping programmes[a1]	1.3	.011	.33	.445	--	--	--	--
Culture compatibility[a1]	.89	.026			--	--	--	--
coping programmes[b]	--	--	--	--	1.41	.07	.42	.59
understanding environment[b]	--	--	--	--	1.15	.06		
Culture compatibility[b]	--	--	--	--	.878	.042		

[a] Two models have been developed for TMPRXAD1 Because of the problem of multicolliniarity, The Chi-square value of the first model of TMPRXAD1 is 36.02 Sig. .000

[a1] The Chi-square value of the second model of (TMPRYAD1) is 17.3054 Sig. .000

[b] The Chi-square value of the model of (TMPRXAD2) is 24.096 Sig. .000

Table 10.19 presents the factors that have statistical significance for entering the logistic regression models at less than 0.01 level of significance for excellent and above average non-financial performance groups. The factors that have critical influence on non-financial performance on excellent merging companies (TMPRYAD1) are differentiation through human resource (3.25), effective communication plan (1.97), coping programmes (1.3), and cultural differences (.89) in the first and second models. The number in parentheses represents the exp(B) for each variable. We can perceive that differentiation through human resource is the most influential factor on the excellent non-financial performance as the exp(B) value is the highest one. In the first model differentiation through human resource and communication plan explain about 40% of the variation of excellent non-financial performance. In the second model coping programmes and culture compatibility explain about 40% of the variation of excellent non-financial performance. Consequently, the excellent improvement (1.5 score and more) of non-financial performance (see figure 8.2) that has been obtained by some companies after merger could be partly and significantly attributed to these four factors. In other words, differentiation through human resource, communication plan, coping programmes and culture compatibility are crucial factors for merging companies to sustain excellent improvement after merger. All of these factors are internal.

Regarding above average performance (TMPRXAD2), the factors that have critical influence on non-financial performance on above average merging companies' performance are coping programmes, effective understanding environment, and culture compatibility. These three factors would have accounted for about 50% of the variation of the above average non-financial performance of merging companies. Moreover, the relative importance of these three factors would be ranked on the basis of the magnitude of their Exp(B). Thus, coping programmes (1.41) are at the top of the list, then recognising environment (1.15), and finally culture compatibility (.878). Consequently, we can say that any unit increase in the score of coping programmes will produce an increase in non-financial above average performance merging companies by a score of 1.41. The same applies with the other two factors. Therefore, the above average improvement (one score) that has been achieved by some companies after mergers could be partly and significantly attributed to effective coping programmes, recognising and understanding business environment, and the culture compatibility of the two merging companies.

From the above discussion, we can perceive that almost all the factors that have statistical significance in entering logistic regression models for excellent and above average financial and non-financial performance are internal factors. The only external factor is understanding environment, which has a major influence on above-average financial and non-financial performance, but not excellent performance. Therefore, internal factors that are represented by differentiation through human resource, communication plan, coping programmes and culture compatibility are the crucial forces responsible for achieving and sustaining excellent and above average improvement in financial and non-financial performance after merger.

Chapter 11

SUMMARY AND CONCLUSION

11.1 INTRODUCTION

The main aim of this study was to investigate the role of human resource and cultural issues in the success or failure of merger/acquisitions. To achieve the objectives within the study, the first chapters were devoted to detailing the literature reviews regarding the implications of human resource and cultural issues in the context of mergers/acquisitions. In addition to this, the mechanism by which such issues are managed to enhance the possibility of the success of such upheaval strategies were also discussed. Moreover, factors responsible for gaining and maintaining a competitive advantage in the context of mergers/acqusitions were also discussed. The detailed literature reviews enabled the researcher to crystalise the internal and external factors which influenced the performance of merger/acquisitions activities. For this purpose a theoritical framework was proposed and tested in the context of Saudi Arabia. The empirical study undertaken involved the complete merger/acquisition cases in Saudi Arabia (complete population) in addition to similar non-merging companies (used as the control group). Such comparative designing helped the study to distinguish the crucial factors that are unique in the success or failure of mergers/acquisitions. The findings of this study are consistent with the previous theoretical and empirical studies (see, for example, Pritchett, 1985; Pritcett et al., 1997; Buono and Bowditch, 1989; Schweiger and DeNsi, 1991, Schweiger et al, 1987; Hubbard,1999; Marks and Mirvis, 1985, 1986, 1998; D'Aveni, 1995; Porter, 1980, 1987; Hamel and Prahalad, 1994; Barney, 2002).

11.2 THE STUDY'S THEORITICAL FRAMEWORK

The theoretical framework used in the study was developed based on the intensive appraisal of the literature relating to the implications of human resource/cultural issues and environmental forces in the success of merger/acquisitions, in addition to, the role of such factors in gaining and sustaining competitive advantage. Such literature reviews were grounded primarily in the context of developed countries (US and UK) and for Saudi Arabia. Because of the rareness of the studies conducted in

Saudi Arabia regarding mergers/acquisitions, the literature review of such issues were based primarily on the available ducuments and interviews that were conducted by the researcher and others (See chapter 2).

The framework comprised of four main components. These components are based on environmental dimensions including the external part of organiational coherence, the ramifications associated with merger/acquisition strategies including the internal part of organisational coherence, the mechanism for managing the process of mergers/acquisitions and, finally, the merger/acquisition outputs in terms of employee commitment/trust, organisation performance and competitive advantage. Each of these components are discussed in detail in the literature review in this thesis. The study's main questions and hypotheses arose from these dicussions (Chapter 1,2,3,4,5,6).

It was discussed in (chapters 2 and 4) that the external business environment is characterised by high uncertainty due to the dynamism and complexity of the environmental increases over time whilst environment munificence decreases over time. Under such turbulant business environment, it is proposed that mergers/acqusitions are appropriate strategies to manage and control the business environment uncertainty. In other words, managing external environments through analysing and understanding the opportunities and threats emerging from the environment would put the combined company in a competitive position that any one could not achieve. Therefore, this study hypothesizes that there is a positive relationship between understanding the external business environment and organisational performance and its competitive advantage/success of such stratgies.

Moreover, it was discussed in chapter 4 that organisational coherence relies on four criteria which are consistency, consonance, feasibility and advantage. In the context of merger/acquisition, coherence is an important factor for the success of such strategies, as these strategies require huge investment in terms of financial, physical and human resources, as well as, creating cultural conflict between merging partners. To achieve organisational coherence in such situation merger/acquisition decisions should be made in the light of full analysis and considering of the external (opportunities and threats) and internal environment (partners' capabilities and weaknesses). Such a full analysis would enable companies to select the appropriate strategies that capitalises on the strengths of the merger partners and seizes the opportunities in addition to nuetralising threats. Moreover, executives' values and beliefs of merger partners (or acquiring and acquired) should be consistent with such strategies to gain their support and encouragement. In addition to this, cultural differences between merger partners have to be managed effectively in order to facilatate the implementation process. Finally, the success of mergers/acquistions is measured by the ability of the merging/acquiring company to achieve competitive advantage that any one company alone cannot achieve.

Accordingly, this study hypothesized that there is a positive relationship between organisational coherence, organisation performance and competitive advantage. This study also hypothesiezd that organisational coherence related strongly and positively to understanding the environment and the the mechanism by which the merger/acquisition process is handled.

The consequences of merger/acquisition strategies (culture clashes and employee stress and tension) represents the second component of the study framework. It was discussed in chapters 2, 3 and 5 that mergers/acquisitions involve an enormous adjustment to change in a relatively short period of time. Even a "friendly" horizontal merger, by its very nature, would produce a high degree of stress, conflict and tension along a number of dimensions into the lives of organisational members. It was also discussed that the uncertainty, insecurity, tension and anxiety often associated with organisational combinations would lead to decreased organisational satisfaction and commitment, increased turnover and absenteeism, power struggles and poorer job related attitudes and performance for a significant proportion of the new company employees. Furthermore, it was discussed that cultural differences often seemed to lie at the root of merger failure. It was reported that cultural differences between the parties involved in merger/acquisition have created misunderstanding, lost identity, fuelled emotional reactions and escalated conflicts (Chatterjee et al., 1992; Datta, 1991; Weber, 1996). Such clashes and related negative attitudes of the members in merging companies could be major barriers to the successful integration of the two merging companies.

Accordingly, this study hypothesized that there is a negative relationship between the level of employee stress and the degree of commitment/trust of employees in the new entity. These negative impacts would also spell over the organisational performance. Similarily, this study hypothesied that there is a negative relationship betweeen cultural differences and organisational performance. Therefore, employee stress and cultural differences could be major barriers to the success of mergers/acquisitions if not handled effectively.

Mechanisms by which the merger/acquisition process is managed represents the third main component of this study framework. It was discussed in chapters 3 and 6 that merger/acquisition strategies often fail to achieve the financial and operational synergies envisioned by precombination feasibility studies. A significant determinent of such failure appears to be based on misunderstanding and ineffective management of the overall process, especially during the postcombination integration period. The basic problem that retarded merger/acquisition strategies to achieve their potential is the fact that most employees whose companies have been merged or been acquired do not have any say in the decision. It is naïve to say the myriad issues and concerns associated with mergers and acquisitions will work themselves out in the long run or the resentment and anger feel resulting in the transformation will dissipate after a sufficient amount of time has elapsed. Therefore, it is essential to identify and manage the myriad of human and cultural concerns and issues that are often raised by mergers/acquisitions. Unfortunately, there are no simple set of answers or panaceas that will automatically create effective, efficient and smoothly integrated mergers/acquisitions. However, based on the extensive investigation of related literature in the context of mergers/acquisitions, four factors have been identified as crucial for managing any merger combination effectively. These factors are: effective communication plans, effective integration approach, effective coping programmes and procedural justice. It was discussed that these factors play essential roles in alleviating much of the truama and tensions raised by the merger process. In other words, designing effective coping programmes accompanied by candid and honest communication and participative transion teams would negate the trauma and tensions, as well as, facilatating culture integration as employees gain control over the merger syndrome. This would support the management credibility and employee loyalty towards the new organisation. This, in turn, would positively support the performance of the new organisation because the hidden costs associated with merger process will be substantially decreased. These costs often arise from culture clashes and stressful situations, such as mergers/acquisitions. Organisational justice is also a very imprtant factor for managing employees' expectations. When employees judge the procedures to be fair, a fair process effect would positively spill over into employee loyalty, job satisfaction, employee commitment and organisational performance.

Accordingly, this study hypothesized that effective communication, coping programmes, integration process and fair procedures and treatments are positively and strongly related to employee commitment/trust and organisational performance. Therefore, these four factors represent success factors in merger and acquisition strategies. Neglecting such critical factors would explain the higher rate of failure in the context of mergers/acquisitions.

The last component of the framework is the outcomes of mergers/acquistions. Two elements of outcomes were employed and discussed within this thesis which are employee commitment/trust and organisational performance. Because causality cannot be established through cross-sectional design, this study assumed that employee commitment/trust were dependent variables based on theoretical and logical grounds (see chapter 9). It was discussed in chapter 4 that uncertainty, insecurity, tension, anxiety and culture clashes often associated with merger/acquistion activities have negative influences on job satisfaction, management trust and employee commitment. Declining employee commitment/trust would negatively affect customer relationships. This could corrupt the image of the new company in the minds of its customers. This, in turn, may lead to customer dissatisfaction, thus reducing the company's profit. Therefore, it was emphasised that merger partners or acquiring companies are to be made aware of the myriad of hidden costs involved in the merger/acquisition process. Although such costs cannot be eliminated entirely, effective management of the process of merger/acquisition would reduce the dysfunctional impact of lower employee commitment and distrust in the combined firm's productivity and profitability. This, in turn, would enhance merging/acquiring company performance and its position in the market. In this study, organisational performance was measured by two related criteria: financial performance and non-financial performance.

In the turbulent business environment intensive competition, ordinary or average performance with regards to the industry norm is not enough for a company to operate efectively. Superior performance or higher than average profitability (compared with competitors) should be the ultimate goal for any strategic option in such a turbulent environment. In other words, mergers/acquisitions should enable companies to gain and sustain distinct competitive advantage over other competitors in the market. It was discussed in chapter 4 that competitive advantage can be achieved through two approaches: market position and a resource-base approach. However, competitive advantage may be quickly imitated by others firms within or out of the market which makes it obsolete. Therefore, a company should build and develop barriers to protect and sustain the skills and knowledge in which its advantage is based. Barney (2002) argued that four conditions must be satisfied in order to achieve sustainable competitive advantage. These conditions are that competitive advantage should be valuable, rare, imperfectly imitable and have no substitutes. Scholars in the area of strategic human resource management and culture argued that human resource and cultural elements met these four conditions. In other words, human and cultural elements are valuable, rare, imperfectly imitable and have no substitutes (Wright and McMahan, 1992; Lado and Wilson, 1994; Pfeffer, 1994).

Accordingly, this study proposed that managing human resource and cultural issues effectively would be the main source of sustaining competitive advantage in the context of mergers/acquisitions. In other words, external factors could be the source of competitive advantage, yet internal factors would be the main source of sustaining such competitive advantage.

11.3 STUDY DESIGN AND METHODOLOGY

The study was designed in such a way that helped to answer the study's main questions and test its hypotheses. A quantititive strategy was used as the main source of achieving the study's objectives supplemented by a qualitative approach in the exploratory stage. Because of the limited time, and ethical considerations, cross-sectional design was employed in this study. Due to the limited number of merger/acquisition cases that occurred in Saudi Arabia (about 72 cases, Ministry of Trade, 2001; Chamber of Riyadh for Trade and Industries, 2000), and for the purpose of enhancing the validity of the study, this study was designed to be comparative. In other words, the study sample includes all of the companies that have been engaged in merger/acquisition activities in Saudi Arabia (the whole population) in addition to similar non-merging companies used as a control group. The study sample, therefore, consists of two groups: one group represents the merging/acquiring companies in Saudi Arabia (main or experiment group) and the other group includes similar non-merging companies (control or comparative group). This designed helped the study to descern the unique factors that contribute to the success or failure of mergers/acquisitions.

The study used the questionnaire as the main source of data collection. In order to obtain the research objectives and to test the study hypotheses, four questionnaires were constructed for data collection purposes. Two of which were designed for merging companies (top and middle management) (the main group). The other two were developed for non-merging companies (the comparative group). To make sure that each question or group of questions fulfilled its aims (measurement of a particular variable), reliability and validity analysis were undertaken. Full analysis of reliability and validity of the study questionnaires were presented in chapter 8. The result of reliability analysis indicated that the variables in the study questionnaires (merging/non-merging and top/middle management questionnaires) have acceptable reliability and provide support for the statistical undertaken analysis. The exception was with the company attitude scale (in the four questionnaires) and competitive advantage scale (in the two questionnaires), as this scale was not included in the middle management questionnaires.

Factor analysis was applied on these scales for the purpose of improving the reliability and discovering latent variables within these scales. The results of the factor analysis signified that a competitive advantage scale was not uni-dimentional but it contained three dimentional variables. These variables were labelled as follows: differentiation through human resource, differentiation through company size and differentiation through government support. The reliability coefficients of the three factors that resulted from the factor analysis were much higher than the competitive advantage scale when combined. This enhanced the reliability of these factors, which in turn, supported the validity of the measure. The results of factor analysis regarding company attitude scale indicated that there were two factors within the scale. These factors were labelled as follows: positive attitude towards merger and barriers of mergers in Saudi Arabia. Although the reliability coefficients of these two factors were higher than the company attitude scale, they were still at an unacceptable level, which may be worrying as measurement tool. Therefore, these two factors were eliminated as a measurement tool in this study.

when the reliability coefficients of the four questionnaires were checked, it was found that there were consistent reliability coefficients amongst the same (similar) scales in each of the questionnaires. This signifies that there is a stability of the scales that were designed for testing the study main variables as the similar (the same) scales of these questionnaires result in consistent reliability coefficients. Accordingly, these results enhance the validity of the study measurements, particularly content validity. This, in turn, would provide supporting evidence of the validity of the study measurement and to the empirical findings that resulted from such measurements.

11.4 EMPIRICAL FINDINGS

the main objectives that the study aimed to achieve are derived from the research questions, which are as follows:

1. What are the relationships between human resources, the cultural components and the merging company's performance (success)?
2. What are the relationships between environmental forces and the merging company's performance?
3. What are the influential factors in the success or failure of merger/acquisition strategies in the context of Saudi Arabia?
4. Could merger and acquisition strategies be appropriate for a Saudi company to gain and sustain a competitive advantage? And how?

Answering the main questions and examining the study hypotheses was based on the analysis and discussing of empirical findings of the study, which are presented in chapters 9 and 10. The empirical findings of the study can be summarised into three groups as follows:

11.4.1 CORRELATIONAL FINDINGS AND UNIQUE FACTORS FOR THE SUCCESS OF MERGERS/ACQUISITIONS

the correlation coefficients between the study variables (internal-external) and the study dependent variables (organisational performance and employee commitment/trust) were computed using Spearman's (rho) correlation. These correlation coefficients were calculated for both merging and non-merging data sets at both top and middle management levels. The results of the correlation analysis were duscussed in terms of comparing the correlation coefficients resulted within merging companies to that of non-merging company's set of data at both top and middle management level. In addition to this, the differences between the correlation coefficients in the merging companies and non-merging companies were examined using a Z-test at both levels. These comparisons would help to demonstrate the unique factors contributing to the success or failure of the merger/acquisition that have occurred in Saudi Arabia. These findings were discussed at two levels (top and middle management).

11.4.1.1 TOP MANAGEMENT VIEW POINT

The results of the correlation analysis indicated that the merging company's performance (finacial and non-financial) was positively associated with the internal factors that comprised of the mechanism of managing merger/acquisition process (differentiation through human resource, communication, integration strategy, coping programmes and procedural justice), as well as, external factors (understanding environment, coordination plan, organisational coherence, government support and differentiation through size), but they are negatively associated with cultural differences. These results support the study hypotheses as illustrated in chapter 7 in the form of a diagram and answer the first two questions of the research main questions (see page 348). Accordingly, we can say that there are positive and strong relationshp between human resource factors such as communication plan, procedural justice and differenciation through human resource etc and the success of merger/acqusition, but the success of merger/acquisition is negatively associated with cultural differences. In other words, as the difference between merger partners (or acquiring and acquired) increased the possibility of success of such strategies decreased and vice versa. However, such differences could be negated through effective management of the integration and merging process as it was confirmed that there are positive and strong relationship between merging performance (financial and non-financial) and the mechanisms of managing the process of merger/acquistion (communication, coping programmes, integration strategy and procedural justice). These findings are also consistent with the merger and acquistion context (see chapter 2, 3, 4, 5 and 6). It can be noted that the majority of the associations regarding merging company perfomance to the internal-external variables are higher than those of non-merging company. However, such associated differences could occur fairly frequently by chance. Therefore, the Z-transformation test was used to examine the difference between these associations in merging and non-merging companies. The results indicates that five out out eleven variables associated with financial performance were significantly different. The five variables (communication media, co-ordination plan, differentiation through human resource, coping programmes, communication plan) would be unique for the success of merger/acquisition in terms of financial performance. It can be noted that four out of the five unique variables were internal factors and co-ordination with stakeholders was the only external factor. Therefore, the findings of the study ensured what the merger/acquisition literature had neglected for decades as crucial to the success or failure factors, and has been emphasized by numerous researchers recently. For example, in the early stages of the merger process human resource problems were often neglected or forgotten as more time and the energy of executives were frequently directed towards financial and legal issues (Marks and Mirvis, 1998). This would put the combined organisation on shaky ground and failure may occur during the early stages (Marks and Mirvis, 1992; Schweiger and Ivancevich, 1985). Rumours often escalate during the change (such as mergers or acquisitions) to the point where specific divisions are identified for restructuring or redundancies (Ivancevich et al, 1989). If such trauma and stress often associated with merger/acquisition strategies are not deal with effectively, the resulting fears can produce feelings of insecurity, uncertainty, resentment and depression. This, in turn, would decrease the employees productivety and lead talented people to leave at eary stage of the merger (Levin, 1984; Sansweet, 1983; Bouno and Bowditch, 1989). Effective communication (Schweiger snd DeNisi, 1991; Bastien, 1987; Gopinath and Bercker, 2000), effective coping programmes (Buono and Bowditch, 1989; Marks an Mirvis, 1997; Schweiger and Weber, 1989) and procedural justice (Meyer, 2001; Hubbard, 1999) are crucial factors for negating much of the trauma and stress associated with upheaval strategies.

Therefore, it is clear that the findings of the study are consistent with the merger/acquisition literature such that the findings of the study emphasises the uniqueness of the internal factors for the success of merging companies (if awareness and attension were given to such factors at early stage of the merger). However, such factors could result in the failure of these strategies if they were neglected or forgotten.

These findings resulted in the consideration of the company's financial performance. The financial performance criteria used in this study were sales growth, market share and share price and are all expected to increase after a short time of after a successful merger. Improving financial performance of merging/acquiring company would only be a short-term objective.

The non-financial performance criteria used included public image, operational effeciency and quality of service. These, however, entail too much time to be built and improved after a successful merger. Thus, improving non-financial performance of merging/acquiring company would be a longer-term objective.

The Z-value regarding the correlation differences in non-financial performance indicates that seven out of eleven variables are significantly different in merging company compared to non-merging company. These variables are the same five variables that are associated with financial performance, in addition to, cultural differences and procedural justice variables. This result provides further evidence of the imprtance of internal factors (human resources factors) for the success or failure of merger/acquisition strategies since the two added variables are internal factors as well. Furthermore, the rank of these variables in non-financial performance (based on the magnitude of the Z-value) is completely different from that of financial performance. These variables were ranked as follows: differentiation through human resource, coping programmes, communication plan, justice, co-ordination plan, cultural differences and communication media. The difference between financial and non-financial regarding the influential variables and their importance in each criteria could reflect the time dimension to each of these two criteria. The impact of cultural differences, differentiation through human resource and procedural justice as critical factors on non-financial performance would only appear in the long-term. We can conclude from these results that cultural differences, differentiation through human resource and procedural justice seem to be influential factors in the success of mergers/acquisitions in the long term than in the short term, whilst communication media co-ordination plan tend to be influential factors in the success of mergers/acquisitions in the short-term rather than in the long-term. In other words, influencial factors on non-financial performance (cultural differences, etc.) could be the main source of gaining and sustaining competitive advantage as the impacts of such factors are invisible and difficult to imitate and they appear after a longer period of time. Whilst financial performance could be a source of competitive advantage, but competitors could easily copy with the source of such advantage such as communication media used by some companies. Prahalad and Hamel (1990) stated that "in the short term, a company's competitiveness derives from the price/performance (financial performance) provides minimum hurdles for continued competition and are less important as sources of differential advantage. However, in the long-term, a company's competitiveness derives from the management's ability to consolidate corporatewide technologies and production skills into its core competencies that empower individual business to adapt quackly to changing opportunities" P.81. (More detail about the sustainability of the competitive advantage will be shown in the last section of empirical findings in this chapter).

11.4.1.2 MIDDLE MANAGEMENT POINT OF VIEW

For the purpose of not repeating what has been dicussed previously the findings and full explanation of the results regarding middle management points of view are presented in chapter 10, section 10.2.2. The main conclusion of such findings is that the middle managers in merging companies would be in a position to tolerate the most drastic actions after mergers since they expect the upheaval and they would prepare themselves physically and psychologically to adapt with, and to obsorb, the shock of the drastic change that was brought about by mergers/acquisitions. Therefore, middle managers who live with such situations would be more able to tolerate and absorb the difficulties than those who do not undergo such a change (non-merger employees). For instance, middle managers expect that there will be redundancies, relocation, procedure and system changes after mergers/acquisitions. Thus, such expectations could act as a cushion that would negate the impact of mergers/acquisitions on middle managers. Pritchett, et al., (1997) stated that "the merger event can provide an excellent window of opportunities to alter the corporate personality, because a merger produces so much destablization and, since primes people to expect change, management can seize the moment and achieve significant cultural shifts" P. 12. In other words, it is crucial not only to survive during the instability created by mergers or acquisitions but to thrive on it, in order to exploit the upheaval. Management should employ the transitional period as an opportunity to make necessary changes that would be very difficult, if not impossible, under normal circumstances. Therefore, employee expectations of change and their abilities to tolerate the most drastic actions would provide a valuable opportunity for merging/acquiring companies to capitalize on the instability created by such strategies and to make changes that may be entirely unrelated to the merger.

11.4.2 CRUCIAL FACTORS FOR ACHIEVING EXCELLENT AND ABOVE AVERAGE MERGING PERFORMANCE

Logistic regression technique was employed in this study in order to identify factors that are essential for achieving excellent, as wel as, above average merging performance. This technique was applied in this study based on three dependent variables, which were financial, non-financial performance and employee commitment/trust for each of the study's two groups (merging and non-merging compnies). Comparisons made between the results in each group were conducted and explained in chapter 9. The main findings will be presented and explained in this section.

11.4.2.1 FINANCIAL PERFORMANCE AS THE DEPENDENT VARIABLE

The result of the logistic analysis regarding merging companies indicated that differentiation through human resource, effective communication plan and cultural differences were crucial factors for achieving excellent financial performance (top management point of view). However, the result of the logistic analysis regarding non-merging companies signifies that co-odination plans, understanding the environment, differentiation through size and procedural justice are all imprtant factors for achieving excellent financial performance. Comparing influential factors regarding the excellent financial performance of the two groups (merging and non-merging companies), we can conclude that the internal factors, which have human aspects, are crucial for merging companies to achieve excellent financial performance whilst external factors (understanding environment, co-ordination with stakeholders and differentiation through size) would be important to non-merging companies for achieving excellent performance.

The result of the logistic analysis regarding merging companies indicated that communication plans, integration strategy, cultural differences and understanding the environment are essential factors for achieving above average performance whilst in the non-merging companies the results indicated that understanding the environment, organisational coherence and cultural differences are critical for achieving above average performance. When comparing the two groups with respect to the factors that are critical for achieving both excellent and above average financial performance, it was found that human and cultural issues (internal factors) are always crucial for successful financial performance whilst environmental (external) factors were found to be more important in the context of non-merging companies.

Mergers/acquisitions often create traumatic and stressful situations in which employees feel resentment, anger and insecure. This, in turn, influences their commitment and trust of the new entity and negatively impacts on and then their productivity (Ivancevich et al., 1987; Schweiger et al., 1987; Marks and Mirvis, 1985, 1986, 1998). Therefore, it is imperative to the success ofmerging companies that management pay attention to the human resource aspect and to manage the merger stress and that the cultures should be effectively integrated (Buono et ta., 1985; Buono and Bowditch, 1989; Ivancevich et al., 1987; Schweiger et al, 1987). Furthermore, Cartwright and Cooper (1993c) stated that the financial performance of the Gable-Apex merger was successful. This success was attributed to the similarity between the two organisations in terms of strategic and cultural aspects which facilatated the development of the new culture.

Regarding the middle management's points of view, the findings indicated that the number of factors concerning them are more and some what different from that of the top management, especially in the merging companies. For example, logistic analysis results indicated that seven factors are important for achieving above average financial performance in the merger/acquisition context. This could explain what Hubbard (1999) found that employees concerns are different according to their organisational position. She stated that middle managers reported very complex concerns when they worry about every thing, not only their job security, but also that of their colleagues, careers, pocedural and cultural issues. From a middle management point of view, procedural justice and coping programmes were found to be critical for both excellent and above average financial performance in the context of mergers/acquisitions, whilst such factors are found to be less critical for merging companies from a top management perspective. This finding could signify that there is a gap between the top and middle management points of view with respect to the factors that are critical for acheiving excellent and above averge performance in merger context. Encouraging middle managers to become involvd in the process of mergers at early stage and by giving them a say in the merger decisions that are related to their job could close part of the gap that was found in the points of view of top and middle management.

11.4.2.2 NON-FINACIAL PERFORMANCE AS THE DEPENDENT VARIABLE

The result of logistic analysis regarding the merging companies signified that differentiation through human resource, communication plan, cultural differences and coping programmes are crucial for achieving excellent non-financial performance whilst in non-merging companies the results indicated that differentiation through size, organisational coherence and understanding environment are importamt factors for supporting non-financial performance. According to the results, it is clear that factors, which are crucial for achieving excellent non-financial performance in the context of mergers/acquisitions, are completely different from those that crucial for non-merging companies. These results provided supporting evidence to the human factors (differentiation through human resource, communication plan, cultural issues and coping programmes) as crucial for the success of mergers/acquisitions both financially and non-financially. It has been noticed that differentiation through human resources is the most critical factor (based on the magnitude of the coefficients Exp(B)) for achieving excellent financial and non-financial performance in the context of mergers/acquisitions. In other word, merging companies that have achieved excellent financial and non-financial performance are those who managed their human resouce activities (selection, training, redundancies and motivation) effectively throughout the merger/acquisition process and support their employee' s skills and knowledge through learning by doing.

Therefore, we can conclude that human and cultural issues are critical factors to instigate successful mergers/acquisitions. In other words, differentiation through human resources, effective communication plans, effective coping programmes and the compatibility of cultures were found to be the secret to achieving excellent, as well as, above average financial and non-financial performance. These findings would answer the third main research question in this study (see see page 348). These findings are also consistent with the mergers/acquisitions literature. Buono and Bowditch (1989) stated that mergers/acquisitions are ultimately a human process. Hence, more emphasis on and sensitivity to what people is experiencing are essential if managers hope to decrease the costs involved both to the individual employees and the organisation. A number of researchers signify that mergers/acquisitions often create significant truama and stress for the employees and managers of both the acquired and acquiring firms, often resulting in attitudinal and productivity problems and the increased turn-over of valued personnel (Sinetar, 1986; Schweiger et al, 1987; Marks and Mirvis, 1985, 1992,1998; Ivancevich and et al., 1987; Walsh, 1988). These problems escalate the costs associated with merger process, resulting in a fall in the merging/acquiiing company's performance. (Buono and Bowditch, 1989; Pritchett, et al., 1997). Thus, it is essential that top management understand, prepare for and manage these factors (human and cultural issues) that potentially contribute to the success or failure of mergers/acquisitions (Schweiger and Weber, 1989; buono et al., 1985). Furthermore, accurate information about both favourable and unfavourable developments enables employees to more effectively plan their future (Ivancevich et al., 1987). Realistic merger previews, if given to the employees, would stabilise the situation and reduce some of the detrimental consequences of mergers/acquisitions. Schweiger and DeNisi (1991), emphasise that communication should be honest and open during the merger process in order to minimize employees' uncertainty, insecurity and stress which is of paramount importance to achieve merger success (Schweiger and DeNisi, 1991). Bastien (1987) stated that effective communication is essential to decrease uncertainty and increase performance. In addition to this, the provision of counsellors, and the introduction of stress-management training, workshops, and the conduct of stress audits are found to be important mechanisms to alleviate much of the stress and tension associated with mergers/acquisitions (Ivancevich et al., 1987; Cartright and Cooper, 1993c).

Research suggests that it is not staff reductions and redundancies in themselves that generate dissatisfaction and bitterness, but rather the way in which such terminations are handled (Schweiger et al., 1987). Unfortunately, most people involved in mergers/acquisitions feel that termination decisions are handled in an arbitrary and ineffective manner (Buono and Bowditch, 1989). This could explain the high rate of failure in mergers/acquisitions. An understanding of cultural similarities and differences between merger partners is essential in selecting an appropriate integration strategy and will facilitate the process of integrating the two cultures (Sathe,1983; Buono and Bowditch, 1989). Whilst significant differences between companies do not imply that the two companies should avoiding merging, they may suggest that a cultural pluralism, rather than a blending strategy, or a combination of the two might be more effective (Buono and Bowditch, 1989).

The literature discussed above supports the findings of this study such that human and cultural factors are critical for the success of mergers/acquisitions. However, these factors are often neglected in the process of mergers/acquisitions. Cartwright and Cooper (1996) stated that although mergers/acquisitions are something which happen to people in organisations, rather than to the organisations in an abstract sense, the human aspects of the phenomenon have received relatively little attention. In many merger/acquisitions cases "people" are largely ignored or dismmissed as being a soft or mess issue by those who initiate the merger decision (Cartwright Cooper, 1996; Schweiger and Ivancevich, 1985). Consequently, people have come to be labelled the "forgotten or hidden factor" in the merger process (Buono and Bowditch, 1989; Schweiger and Ivancevich, 1985). The ignorance of critical success factors (human and cultural issues) in the process of mergers/acquisitions could explain the high rate of failure in such strategies, Marks and Mirvis (1998) indicated that 75% of all mergers/acquisitions fail.

11.4.3 GAINING AND SUSTAINING A COMPETITIVE ADVANTAGE IN THE CONTEXT OF MERGERS/ACQUISITIONS

Wthin a turbulent business environment that is characterised by severe competition, gaining and sustaining competitive advantage is essential for companies to develop and prosper over time. According to Barney (2002) such a strategy should be used as a source of sustained competitive advantage. It must be not only be valuable but also be rare, costly to imitate and a firm must be organised enough to implement this strategy. It seems clear that mergers/acquisitions by themselves are usually not a source of sustained competitive advantage as most large companies have pursued some form of mergers/acquisitions, but the way the two companies are integrated and managed throughout merger process could be the main source of economies of scale and scope that any one cannot achieve alone.

To examine the effectiveness of mergers/acquisitions for Saudi companies to realise sustainable competitive advantage, the change in the company's performance was measured by comparing the company's performance before and after the merger (for merging companies), current performance and performance three years ago (for non-merging companies). This study employed the paired-samples t-test to test the differences between before and after/current and three years ago for both merging and non-merging companiess (financially and non-financially). Independent-samples t-test were also used to test the differences between merging and non-merging companies with regard to the average improvement in the financial and non-financial performance.

The results indicated that there were significant improvements of the financial and non-financial performance for both merging and non-merging companies. This would signify that the improvement on the companies performance could be attributed to factors other than merger/acquisition activities (economics, etc) as both merging and non-merging companies have enjoyed significant improvement. However, comparing and testing the degree of improvement in both merging and non-merging companies indicated how merger strategies support Saudi companies in realising sustainable competitive advantage. The results indicated that performance improvements are always in favour of merging companies financially and non-financially, yet the difference in financial improvement between merging and non-merging companies is statistically significant. This implies that merger strategies could enabled Saudi companies to sustain financial performance improvement. However, the difference in non-financial performance between the merging and non-merging companies was not statistically significant. This implies that the difference in the improvement regarding non-financial performance (in the favour of merging companies) could have occurred by chance.

From the results above, we can conclude that mergers/acquisitions could have enabled Saudi merging/acquiring companies to significantly improve their financial and non-financial performance after merger. Furthermore, merging companies have achieved statistically significance increase in the improvement over non-merging companies with respect to financial performance. In other words, merging companies have achieved and maintain a competitive advantage over their corresponding non-merging companies with regard to financial performance.

To identify the crucial factors that contributed to gaining and sustaining the performance improvement that have been achieved by merging companies, Spearman's (rho) was employed to compute the correlation coeficients between the change of the companies' performance (financial and non-financial) and to study the internal and external variables for both merging and non-merging companies. Z-testing was also used to examine the correlation differences in merging and non-merging companies with regards to the change in company performance (financial and non-financial). The results indicated that differentiation through human resource is the unique factor that would have contributed to the improvement of the merging companies' performance. Thus, sustaining the improvement of the merging companies' performance (financial and non-financial) that have been achieved after a merger would be attributed to the effective management of human resource practices (selection, training and motivation), fostering employees skills and knowledge through learning by doing and supporting the culture of creativity and innovation by the merging companies. Moreover, there are two variables that could have a major influence on the improvement of non-financial performance that have been obtained by merging companies. These variables are communication media and communication plan, but these variables are not statistically significant different at any acceptable level of significance, but we consider them as influential factors on the improvement because of the following two reasons:

I. The Z-value of these variables is much higher (1.31, 123) than the remaining insignificant variables. In other words, the Z-value of these variables is relatively close to the minimum critical value of 1.6.

II. These variables are positive, statistically significant at less than .001 level of significance, and relate to the improvement of non-financial performance.

These two factors (communication media and plan), as well as, the unique factor (differentiation through human resource) are internal factors. In contrast, the results signify that the external variables such as understanding environment and differentiation though government support play a trivial role on the improvement of financial and non-financial performance. This is because of the magnitude of their Z-value is very low and the relationship between them and the improvement of financial and non-financial performance is very low and statistically insignificance. Consequently, we can conclude that the internal factors represented by effective management of human resource and effective communication strategies are the main source of competitive advantage that would have enabled Saudi merging companies to sustain their improvement after their merger. These findings would answer the fourth study main question (See page 348). These findings are consistent with strategic and mergers literature and support the resource-based approach as the main source of sustainable competitive advantage.

Prahalad and Hamel (1990) argued that the main source of competitive advantage relies on the ability of management to integrate corporate-wide technological and production skills and knowledge into competencies that provide nourishment, sustenance and stability for corporation's products. Therefore, they stated that a company's core competency is the root of its competitive advantage. Furthermore, Christensen (2001) argued that although the value of market positions and the relevence of business models can wax and wane, "tacit" competencies (internal processes) and have been thought to be more enduring because they are harder to copy. Moreover, the resource-based view suggests that human resource systems can contribute to sustained competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships, embedded in a firm's history and culture and generate tacit organisational knowledge which makes it very difficult for competitors to identify and imitate (Lado, 1994; Barney, 1992; Reed and DeFillippi, 1990; 1989; Khatri, 2000; Pfeffer, 1994, 1995). The sustained superior performance of the most admired companies, such as Marriott, Borg-Warner and Merck has been attributed to their unique capabilities for managing human resourcs to gain competitive advantage (Ulrich and Lake, 1990).

The literature discussed above support the study findings which suggests that sustainability of competitive advantage resides in the ability of merging company to manage their human resources through effective communication and by fostering organisational skills and knowledge through learning (by doing).

11.5 IMPLICATIONS OF THE STUDY FINDINGS

The findings of this study indicate that human and cultural factors are essential in the success/failure of mergers/acquisitions, and also are the main source for sustaining competitive advantage that can be gained through mergers/acquisitions. These findings should not imply that environmental forces are not important for the success of merger/acquisition, yet these forces would not be a unique or a source of sustainable competitive advantage in the context of mergers/acquistions, but environmental forces are important for both merging and non-merging companies. These findings have implications for executives who are likey to be involved in future mergers/acquisitions. The implications are as follows:

I. This thesis would hopefully be used as a reference for the descion-maker in companies who intend to pursue mergers/acquisitions. This study would also provide them with a valuable framework that could be used as guide in the process of mergers/acquisitions. This study also emphasize factors that human/cultural should be taken seriously as critical success factors in the process of mergers/acquisitions.

II. Executives should recognise that merger/acquisition strategies can be used to promote more competitiveness within Saudi' industries. However, those strategies involve a very complicated processes. The positive results (advantages and benefits) that could be realised from such strategies should be recognised as being the success factors that are very important to the success of mergers and acquisitions. In other words, effectively managing human resource and cultural issues could be the main source of success in companies pursuing a merger and acquisition strategy if well planned. If unplanned, M&A could exacerbate the problems that face Saudi industries.

III. It may be insufficient to focus on only one or two of the factors that are essential for the success of mergers/acquisitions. The potential of mergers/acquisitions may not be realised if the process of merger/acquisition has not been selected, implemented and supported effectively. In other words, for the purpose of increasing the potential of the success of mergers/acquisitions, executives have to take into consideration the human/cultural, financial, legal, as well as marketing and operational factors as important factors during the early stages of the merger/acquisitions process.

IV. Executives need to recognise that in change such as mergers/acquisitions occurs, employees and managers expect change so they will be in a position to tolerate a lot of changes. Therefore, mergers/acquisitions provides an excellent window of opportunities to implement needed changes that would be more difficult, if not impossible under normal circumstances. The process of implementing such changes should be conducted effectively and professionally in order to be successful.

V. The recognition of the nature of the company's human resource structure and cultural problems may arise during integrating involved companies. Two possible forms of cultural clashes could occur. Firstly, there is the potential that the corporate cultures of the two partners are completely different in terms of structure (tall vs flat structure), control and compensation systems. Secondly, merger/acquisitions may bring together two set of employees who have fundamentally different views on what constitute a desirable management style or appropriate organisational hierarchy. Executives should be aware of such problems from the early stages of the mergers/acquisitions process and regarding how to deal with them effectively.

VI. Merger/acquisitions have been proven to be a period of great uncertainty and insecurity. Companies engaged in mergers/acquisitions should concentrate more on the human side of the process. Acquiring/merging companies should reduce the fear and stress associated with the unknown produced by such strategies, as well as, lessen the impact of the upheaval on employees through effective management of the merger process (effective communication, effective coping programmes and procedural justice).

VII. Investment bankers, brokers, lawyers and accountants are useful in the facilitation of the mergers/acquisitions process, yet over-reliance on the services may provide unfavourable results.

11.6 LIMITATIONS OF THE STUDY

This study has been restricted by a number of limitations. By recognising these limitations it is important to provide a viabler basis for interpreting the findings of the study as intended.

Firstly, the sample of the study was relatively small (the complete population) , which may limit the validity of the study. However, this study negate the limitation by involving both the top and middle managers in the sample (as different sample units).

Secondly, the design of the study is based on cross-sectional survey that collects data from a selected sample to describe larger population at one point in time (Babbie, 1973). This design is limited as to tracing the change in employee attitudes (commitment and trust) during the merger/acquisition process and establish causality relationships to merging/acquiring performance. However, this study negates such limitation through designing the study to involve similar non-merging companies in the study sample as a control or comparative group.

Thirdly, this study broadly examined the impact of cultural, human resource and environmental forces in the success of merger/acquisitions. In other words, this study does not address the specific impacts of spcific factors like redundancies, nepotism, training programmes or compensation etc., on the success of mergers/acqusitions. Furthermore, this study does not address the human and cultural implications of the level of integration on organisational performance.

Fourthly, there was a lack of publicly published data regarding Saudi Arabia companies. This limitation has forced the researcher to rely primarily on subjective and self-reporting methodologies.

Finally, closely associated with the previous limitation which related to the nature of the data obtained through structure questionnaire, there are positive aspects of this technique as a source of data collection, but a major problem lies in the possibility of baises in the data. Validation procedures and techniques used in this study have been used to minimise the limitations of using questionnaires.

Given the limitations above, it should be noted that the researcher believes that the study findings provide a generality to the issues studied and highlights areas of concernthat have been until now under researched such as the role of cultural, human and environmental factors to the success of mergers/acquisitions.

11.7 FUTURE RESEARCH

The study reportabove and its overall limitations, would suggest ideas for future research. This study does not claim that its findings are conclusive, but rather it lays the groudwork for subsequent research. The following areas that remain unexplored may require further investigation:

I. A replication of this study is recommended using a greater number of respondents and/or other methods of data collection (intensive interviews or case studies), the results would have stong managerial as well as governmental implications.

II. A similar study is also suggested to be conducted in other Arabic countries such as Egypt using the two available vesions of questionnaires (merging and non-merging companies). Such a study could enhance the value and general application of the results in the present study. Additional empirical work is required show if these findings can be applied or generalised to other Arabic countries.

III. With the availability of time and funds, it may be ideal to trace the influence of human resource/cultural factors on the organisational performance throughout the merger/acquistion process and to establish causality is also recommended by using longitudinal design.

IV. It has been discussed before that the mergers/acquisitions rate of failure is very high. This high failure rate is often attributed to the inability of merging/acquiring companies to effectively integrate the two companies into one entity. This study hopefully will encourage further research to examine more behavioral factors that could shed more light on effective integration process. In addition to this, the study primarily focussed on the impacts of cultural/human factors, as well as, environmental forces on the success/failure of mergers/acquisitions. Thus, the impact of other organisational functions such as marketing, operational and financial factors in the success/failure of mergers/acquisitions may need to be investigated further in the context of Saudi Arabia.

V. This study has broadly examined the influence of human/cultural factors on the success of mergers/acqusitions. The impact of specific factors such as employee participation, the policy of redundancies, the level of integratin, and nepotism are recommended areas for future research in the context of Saudi Arabia.

VI. The research on mergers/acquisitions in Saudi Arabia is still its infancy. There is a requirement to conduct more research regarding the different aspects of merger/acquisitions in order to provide managers with a guide in term of the future decisions they make. I hope thia studuy can pesent study may act as a starting point for them to begin their development of such an insight.

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Appendex A1:

Questionnaire (Covering letter)

THE UNIVERSITY OF SHEFFIELD

Sheffield University Management School **9 Mappin Street, Sheffield S1 4DT**

Professor D L Owen, Chairman

Telephone Number (General) : +44 (0) 114 222 3346
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In the Name of Allah. The Most Gracious and Most Merciful

His Excellency The Venerable

I would like to notify your Excellency that this questionnaire is for a PhD research project I am conducting in the Management School of Sheffield University.
This research project is related to the role of human resource and cultural issues in the success or failure of merger and acquisition strategies. This study will be applied in the Saudi and Gulf markets.

Since your company has involved in merger strategies, it has been selected to be one of many research samples to gain some information related to the mergers and their impact on the company and the way they are managed.
Also, I would like to insure you that all of your answers will be treated with complete confidentiality, and will be used only for the academic purposes and research.
I hope that the research findings will help companies to recognize the main factors in the success of merger strategies, and how competitive advantages could be achieved through these strategies.
Answering all questions precisely is a very important factor to the success of this study, which is the basis of Al-Musharraf's PhD thesis.
Also, I would like you to be aware that some of the questionnaire items could be outside of your specialization(s). In this situation, please answer these items based on your own opinion.
Please don't hesitate to contact us for clarification of any inquiry or ambiguity in the questionnaire items.

Your cooperation is very much appreciated,
Thank you,

Mike Dietrich
Senior lecturer,
management school
Sheffield University

Musharaf Al-Musharraf
PhD student
Home Tel: 014772093
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Appendix A2:

Letter from the Sponsorship

بسم الله الرحمن الرحيم

المملكة العربية السعودية
وزارة التعليم العالي
جامعة الملك سعود
الإدارة العامة
لشؤون هيئة التدريس والموظفين

رقم: ٢٢١٦٠١٦٨٨٧
تاريخ: ٢ / ٤ / ١٤٣٢هـ
مرفقات:

((إلـــى مـــن يهمـــه الأمـــر))

تفيد الإدارة العامة لشئون هيئة التدريس والموظفين بجامعة الملك سعود بـأن المبتعث / مشرف بن عبدالله المشرف هو أحد مبتعثي الجامعة ويقوم برحلة علميـة إلى المملكة لجمع البيانات اللازمة لبحثه عن رسالة الدكتـوراه المتعلقـة باسـتراتيجات الاندماج والاستحواذ .

وقد أعطي هذه الإفادة بناءً على طلبه لتقديمها إلى من يهمه الأمر .

برجاء مساعدته وتسهيل مهمته .

والله المـــوفق ،،،

مدير عام

شئون هيئة التدريس والموظفين

٢ - ٤ - ١٤٣٢

سليمان بن عبداللطيف السيف

جامعة الملك سعود ١٣٧٧ ١٩٥٧ KING SAUD UNIVERSITY

Appendix A3:

Questionnaire for merging company

N.B. This is the top and middle management questionnaires of merging company as aggregate.
Middle management questionnaire does not involve the integration approach and competitive advantage sections
Top management questionnaire does not involve the impact of M&As on human resource and commitment /trust sections.

First: Top management attitude toward Mergers and acquisitions

The following statements are designed to explore top management attitude toward mergers/acquisitions in Gulf Countries. Please select the answer, which represents your opinion, from the choices provided (Strongly disagree,…. …., Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Item	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-It is very important for Saudi companies to pursue merger/acquisition strategies to face business challenges.	1	2	3	4	5
2-Saudi companies are often reluctant to pursue merger strategies since they may not have enough experience and knowledge to conduct such a strategy.	1	2	3	4	5
3-Mergers/acquisitions often lead to monopoly.	1	2	3	4	5
4-Saudi companies are often reluctant to adopt merger strategies because they fear that they may lose management control over their companies.	1	2	3	4	5
5-The number of mergers and acquisitions in the Saudi market is little because these strategies are ineffective in Saudi Arabia.	1	2	3	4	5
6- Small organisations must recognise that they are not self-sufficient.	1	2	3	4	5
7- In the future, both large and small companies increasingly will be acquired or merged with other to achieve success.	1	2	3	4	5
8- Infrequency of mergers/acquisitions in Saudi Arabia can be attributed to the unavailability of specialised centres for mergers/acquisitions	1	2	3	4	5

Second: The impact of mergers and acquisitions on Human resources

The following questions are designed to help explore the impact of mergers and acquisitions on **human resource issues (layoff, stress, compensation, etc.)**. Please choose the answer, which best represents your **feeling,** from the choices provided (Never,…….., Very often) for each question.

During the merger process, how often have you:

Questions	Never	Almost never	Some times	Fairly often	Very often
1-felt resentment and hostility toward merging firms and their representatives?	1	2	3	4	5
2-felt frustrated and stressed with the changes that were brought about by the merger?	1	2	3	4	5
3-felt anxiety and anger due to the scarceness of related information?	1	2	3	4	5
4-felt that your work stress caused by the merger affected your family life?	1	2	3	4	5
5-felt worried about your Position changing?	1	2	3	4	5
6-felt concern about losing your colleagues and friends?	1	2	3	4	5
7-felt insecure in your current job?	1	2	3	4	5
8-felt concern about taking a pay cut?	1	2	3	4	5
9-felt worry about your opportunities to advance in the new company?	1	2	3	4	5
10-felt unable to fit in with the new culture?	1	2	3	4	5
11-felt that the merger affects your pension and incentive plans?	1	2	3	4	5
12-felt that the merger affects your medical insurance negatively?	1	2	3	4	5
13-felt that the merger affects your holidays and sick pay systems negatively?	1	2	3	4	5
14-felt that the merger affects your annual bonus/profit sharing plans negatively?	1	2	3	4	5

Third: Culture differences

The following items relate to **the Beliefs and Assumptions** top management **had prior to** the merger or acquisition about the importance of some business practices and procedures, and how things should be done for the success of a business. Please circle the most appropriate answer, which represents your perception about the differences between the two top management groups, from the choices provided (Very different, …….., Very similar) for each item.

To what extent have the two top management groups of the merging companies differed in the following practices and procedures?

Items	Very different	Different	Neutral	Similar	Very similar
1- Managers share information and communicate with other subunits of the company.	1	2	3	4	5
2- High autonomy in decision-making is given to managers.	1	2	3	4	5
3- Managers respond to change in the business environment quickly.	1	2	3	4	5
4- Top management provides support and warmth to those managers below them.	1	2	3	4	5
5-Compensation for managers are competitive with similar companies.	1	2	3	4	5
6- Rewards and recognition are based on manager's performance.	1	2	3	4	5
7- There is a continuous pressure to improve personal and group performance.	1	2	3	4	5
8- Managers maintain and develop interrelationships with managers of other departments.	1	2	3	4	5
9- Mangers are encouraged to be innovative and take independent actions and reasonable risk.	1	2	3	4	5
10- Various subunits managers make efforts to understand each other's problems and difficulties.	1	2	3	4	5
11- Formal rules and procedures are followed in making decisions and carrying out all activities.	1	2	3	4	5
12- To be effective, decision makers should be very cautious.	1	2	3	4	5
13- Managers are encouraged to confront conflicts and to seek ways to solve them.	1	2	3	4	5
14- Managers are encouraged to recognize and seize good opportunities once they arise.	1	2	3	4	5

Fourth: Mechanisms for managing mergers process

1-Procedural justice

The following statements are designed to help measure **your perception of procedural justice** during the merger process. Please select the answer, which represents your perception about the procedural justice, from the choices provided (Strongly disagree, …., Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-The company's management team takes sufficient care to protect the rights and benefits of all employees during the merger process.	1	2	3	4	5
2- Those who are laid off have the opportunity to appeal their layoff.	1	2	3	4	5
3- Regarding the layoff process, employees are treated equally with regard to status and nationality.	1	2	3	4	5
4- Nepotism and favouritism play a role in the process of layoffs.	1	2	3	4	5
5- The dominant culture of Saudi Arabia makes it difficult to layoff a member of your tribe, relatives or friends.	1	2	3	4	5
6- Unavailability of labor unions in Saudi Arabia contributes to the layoff of specific employees.	1	2	3	4	5
7- The social interrelationships and courtesies often limit the possibilities of benefiting the Saudis, Bahrainis… potentiality and energies.	1	2	3	4	5
8- The new management team gives all employees equal opportunities with regard to career advancement and treatment.	1	2	3	4	5
9- Experience and competence are the bases of the employees' promotion and compensation.	1	2	3	4	5
10- Nepotism could play a role in the promotion and compensation plans.	1	2	3	4	5
11- We find a lot of difficulty in laying off Saudis due to the 'Suadisation' policy.	1	2	3	4	5
12- The majority of the employees who have been laid off are foreign employees.	1	2	3	4	5
13- The employees' benefits and incentives have improved as a result of the merger.	1	2	3	4	5
14- The employees' salaries have increased as a result of the merger.	1	2	3	4	5

2- Approaches to integration

The following items are designed to help explore the approaches that are used to integrate the companies involved in the merger. Please select the answer, which represents the integration approach the merging companies used, from the choices provided (Not used at all , …., Used very often) for each item.

To what extent do the following items describe the way your company integrates with the other company?

Items	Not used at all	Used little	Used moderate	Used often	Used very often
1-A top manager of the acquiring firm has been given formal responsibility for integrating the combining firms.	1	2	3	4	5
2-A top manager of the acquired firm has been given formal responsibility for integrating the combining firms.	1	2	3	4	5
3-A formal transition team composed of top managers from both companies has been given responsibility for integrating the combining firms.	1	2	3	4	5
4-Formal transition teams composed of managers from both companies have been given responsibility for integrating their respective areas.	1	2	3	4	5
5-Top managers from both firms are exchanged to facilitate integration.	1	2	3	4	5
6-Managers from both firms have been encouraged to informally meet and talk with their counterparts in the other firms.	1	2	3	4	5
7-Social functions (e.g., lunches, parties) are encouraged, so top and other managers from both acquired and acquiring firms could get to know each other better.	1	2	3	4	5
8- Organisational structure has been designed in a way that encourages employee participation in the process of the merger.	1	2	3	4	5
9- Consultants are used to oversee and help coordinate managerial transition teams.	1	2	3	4	5

3- Programmes to cope with the merger

The following items are designed to help explore the programmes used to help and inform employees to cope with the merger process. Please select the answer, which represents the programmes your company used, from the choices provided (Not used at all, ……., Used very often) for each item.

To what extent has your company used the following programmes during the merger process?

Items	Not used at all	Used little	Used moderate	Used often	Used very often
1-Training programmes for managers to deal with employee concerns during organisational and individual changes.	1	2	3	4	5
2-Financial incentives have been used to manage the restructuring programmes.	1	2	3	4	5
3-Employee morale surveys to recognise and solve the problems associated with the merger.	1	2	3	4	5
4-Career counselling programme (i.e., clarify career options in the new organisation).	1	2	3	4	5
5-Skills retraining programmes to enable employees to capture the appropriate skills required in the new organisation.	1	2	3	4	5
6-Teambuilding programmes in order to enhance the spirit of teamwork	1	2	3	4	5
7-Other programmes used (please specify)					

4- Media of communication

The following items are designed to help explore the media that has been used by management to communicate information that help employees understand the events and conditions relating to the merger/acquisition. Please select the answer, which represents the media of communication your company used, from the choices provided (not used at all, ……., Used very often) for each item.

To what extent has the following media of communication been used by your company?

Items	Not used at all	Used little	Used moderate	Used Often	Used very often
1- The company's regular newsletter.	1	2	3	4	5
2- Letters, memos and/or videotaped messages.	1	2	3	4	5
3- A 24-hour telephone "hotline" to answer employees'questions and enquiries.	1	2	3	4	5
4- Personal meetings with supervisors.	1	2	3	4	5
5- Town hall meetings.	1	2	3	4	5
6- Local newspapers.	1	2	3	4	5
7- Co-workers and colleagues at work	1	2	3	4	5
8- Employees informal groups (café, restaurant, common room, etc).	1	2	3	4	5
9- Customers and friends at other companies.	1	2	3	4	5
10- Others (please specify).					

5-Communication and coordination plans

The following statements are designed to help measure the communication and coordination plans used by the combining firms. Please select the answer, which represents the communication plans your company used, from the choices provided (strongly disagree, ……., strongly agree) for each item.

To what extent has your company used the following communication and coordination plans?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-Communication with employees is done as soon as information relevant to them is known.	1	2	3	4	5
2-Communication with employees is done at the last minute so as to avoid disruption.	1	2	3	4	5
3-Communication with employees is based on honest and accurate information.	1	2	3	4	5
4-Communication with employees is optimistic so as to build hope.	1	2	3	4	5
5-Communication with employees is pessimistic so as to avoid building expectation.	1	2	3	4	5
6-Non-official communication through rumours is used extensively to provide the employees with related information.	1	2	3	4	5
7-Purposeful network of relationships is designed to link the merging company with its key stakeholders (shareholders, creditors, suppliers,….).	1	2	3	4	5
8-Specialists and taskforces are used to enhance the link between the merging company and its interest groups (customers, government,…. etc.).	1	2	3	4	5
9-There is no obvious mechanism that links the merging company with its key stakeholders.	1	2	3	4	5
10-Others (please specify)					

Fourth: External company's environment

1- Understanding the environment

The following statements represent some of the key environmental factors that influence the organisations. Please select response No.1 (Completely neglected) if the factor was not analysed at all. If the factor was comprehensively analysed and understood choose response No.5 (Precisely analysed). The responses 2, 3, and 4 enable you to choose intermediate position.

To what extent has your company recognized and considered the following environmental factors?

Factors	Complete neglected	Neglected	Considered a little	Considered	Thorough considered
1- The recession situation the Saudi economy has faced during the last decade.	1	2	3	4	5
2- the reduction of subsidies and capital spending during the last decade.	1	2	3	4	5
3-Challenges that will be brought about by joining Saudi Arabia the World Trade Organisation (WTO)	1	2	3	4	5
4- Opportunities that will be available in the global market when Saudi Arabia joins WTO.	1	2	3	4	5
5- Government rules and regulations with regard to Mergers and acquisitions.	1	2	3	4	5
6- Opportunities and threats that are brought about by advanced technologies (internet,...........).	1	2	3	4	5
7- Saudisation policy implications.	1	2	3	4	5
8- financial institutions and the Saudi stock market.	1	2	3	4	5
9- Suppliers positions and strategies.	1	2	3	4	5
10- Buyers' bargaining power.	1	2	3	4	5
11-New firm entry into your industry.	1	2	3	4	5
12-Rivalry among existing firms in the industry that your organisation operates in	1	2	3	4	5

The following items relate to the time and way that a company considers the business environment, please answer the following question.

To what extent do you agree or disagree with the following items?	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-The company environment assessment is primarily based on the information provided by planning departments.	1	2	3	4	5
2-The company environment assessment is primarily based on the information provided by marketing departments.					
3- The assessment is primarily based on the information provided by the company at various levels.	1	2	3	4	5
4-An environmental assessment is conducted each year.	1	2	3	4	5
5-An environmental analysis is conducted continuously.	1	2	3	4	5
6-There is no clear way or specific time to conduct an analysis, but it depends on the company's situation.	1	2	3	4	5

2- Organisation coherence

The following items are designed to help explore **how your company held together while the merger process proceeded**. Please select the answer, which represents your opinion, from the choices provided (Strongly disagree,…. …., Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1- Merging companies have faced financial difficulties because of the huge investment required by the merger strategy.	1	2	3	4	5
2-Merging companies lack the managerial experience and knowledge to manage the merger process.	1	2	3	4	5
3-Merging companies lack the operative skills and competence to conduct the merger process.	1	2	3	4	5
4-The merger implementation was delayed many times because of the lack of the required material and technological resources.	1	2	3	4	5
5-Merger strategies are not compatible with the prevailing values and beliefs in merging companies.	1	2	3	4	5
6- Merger strategies are consistent with the purpose and goal of the merging companies.	1	2	3	4	5
7-After the merger, it is a prevailing theme that the success for one organisational department could mean or interpret the failure of another.	1	2	3	4	5
8-This merger has been used effectively to exploit the strengths of the companies involved in the merger.	1	2	3	4	5
9-This merger has enabled the involved companies to seize the opportunities available in the environment successfully.	1	2	3	4	5
10- The weakness of one merging company has been overcome (supported) by the strength of the other.	1	2	3	4	5
11-Threats which were imposed by the Saudi economic conditions and globalisation have been confronted successfully by this merger.	1	2	3	4	5
12- The cultural differences between merging companies impede the potential of this merger.	1	2	3	4	5
13- The two merging companies were suffering from the same weaknesses (finance, marketing or operations). These weaknesses were exacerbated after the merger.	1	2	3	4	5

3- Competitive advantage

There are factors, in any business environment, which could affect a firm's ability to achieve competitive advantages. Please select the answer, which represents your opinion, from the choices provided (Strongly disagree,…. …., Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-It is strategically advantageous to our company to be larger in today business environment.	1	2	3	4	5
2- Our competitive advantage in the new company stems from the way we manage our human resources.	1	2	3	4	5
3- Employees skills and knowledge that are supported by learning-by-doing are the main source of our competitive advantage.	1	2	3	4	5
4- The company's culture that supports innovation and creativity is the main source of our competitive advantage.	1	2	3	4	5
5- The merger diminishes the competition in our industry. This supports our position in the market.	1	2	3	4	5
6- Entry barriers to our industry (such as economy of scale, product differentiation, and the huge capital requirements) often impede new companies from entry.	1	2	3	4	5
7- We often create and maintain a close relationship with suppliers for getting high quality inputs and quick responses.	1	2	3	4	5
8- The merger supports us against financial institutions, as we get good services at appropriate rates.	1	2	3	4	5
9- Protection and subsidies offered by government are a main source of our competitive advantage.	1	2	3	4	5
10- Government development funds provide us with great opportunities to build our competitive advantage.	1	2	3	4	5
11- The basic physical infrastructure (such as transportation and communication system) confers a unique competitive advantage for us.	1	2	3	4	5

Fifth: The outcomes

1- Commitment and trust

The following statements are designed to help measure employee commitment and organisational trustworthiness. Please select the answer, which represents your opinion about the new company, from the choices provided (Strongly disagree,…. …., Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-I trust the new organisation.	1	2	3	4	5
2-I believe that the new management knows what it is doing.	1	2	3	4	5
3-My co-workers have been quite mistrustful of top management since the layoffs.	1	2	3	4	5
4-I feel very loyal to the combined organisation.	1	2	3	4	5
5-The new management often says something, but it does something else.	1	2	3	4	5
6-When someone praises this organisation I feel like a personal compliment.	1	2	3	4	5
7-I feel a sense of ownership for this organisation.	1	2	3	4	5
8-Generally, speaking, I am very satisfied with my job after the merger.	1	2	3	4	5
9- After the merger, I frequently think of quitting my job.	1	2	3	4	5

2-Organisation performance

Please use the scale below to show the level of performance of your organisation in comparison with any other major competitor. Using the scale below, please circle the appropriate number that reflects your organisational performance in each factor (criterion) before and after the merger. I mean here by **industry:** a group of companies that practices the same or similar activities. For example, bank and insurance companies work in the same industry.

Financial performance scale:

Poor	Below industry average	Average	Above industry average	Excellent
1	2	3	4	5

	Before merger	**After merger**
1-Sales growth	1 2 3 4 5	1 2 3 4 5
2-Return on assets	1 2 3 4 5	1 2 3 4 5
3-Market share	1 2 3 4 5	1 2 3 4 5
4-Stock price	1 2 3 4 5	1 2 3 4 5
5-Overall performance	1 2 3 4 5	1 2 3 4 5

Non-financial performance scale:

Poor	Below industry average	Average	Above industry average	Excellent
1	2	3	4	5

Compared to the major competitor in your industry, please rate your company before and after the merger on the following indicators.

	Before merger	**After merger**
6- Public image and goodwill	1 2 3 4 5	1 2 3 4 5
7-Quality of services	1 2 3 4 5	1 2 3 4 5
8-Efficiency of operations	1 2 3 4 5	1 2 3 4 5

9- To what extent are you confident about the above answers?

{ } Very confident
{ } Confident
{ } Not confident

Finally: General questions

1- Name of the company before the merger--

2- Name of the company after the merger--

3- The date of the merger --

4- Main activity (Activities)-----------------------------------

5- What is your organisational position? --------------------------------------

6- How long you have been in this organisation?

{ } Less than 5 years
{ } 5-10 years
{ } 11-15 years
{ } 16-20 years
{ } 21-25 years
{ }More than 25 years

7- How do you see your experience in your job?

{ } Above average { } average { } Inexperience

8- What is the approximate total number of employees in your organisation before and after the merger?

Before merger	After merger
{ } Less than 100	{ }Less than 100
{ } 100-500	{ } 100-500
{ } 501-1000	{ } 501-1000
{ } 1001-1500	{ } 1001-1500
{ } 1501-3000	{ } 1500- 3000
{ } 3001- 10000	{ } 3001- 10000
{ } More than 10000	{ } More than 10000

9- Does the company have a partnership with the government or foreign company?

{ } Yes { } No

If the answer is (Yes), Please specify:

❖ **Government share:**

{ } Less than 10% { }10-20% { }21-35% { }36-50% { } 51-75%
{ }100% government

❖ **Foreign company share:**

{ } Less than 10% { }10-20% { }21-35% { }36-50% { }More than 50%

10- Type of merger:

{ } Acquisition: a company buys another company.
{ }Horizontal merger: the merging companies work in the same industry.
{ }Vertical merger: the merging companies work in integral activities.
{ } Others (please specify)---

11- Legal form of the company:

{ }Joint stock { }Partnership { }Limited Partnership { }Limited liability
{ } Other (please specify)--

11- If you have any comments or opinions regarding the subject of the questionnaire please write them down:

Here, I would like to express my appreciation and gratefulness for your cooperation and the valuable time and effort you spent in filling out the questionnaire.

Musharaf Al-musharraf
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Appendex A4:

Questionnaire for non-merging company

N.B. This is the top and middle management questionnaires of non-merging company as aggregate.
Middle management questionnaire does not involve the integration approach and competitive advantage sections
Top management questionnaire does not involve the impact of M&As on human resource and commitment /trust sections.

First: Human resource elements

The following questions are related to some of the impacts that employee might have felt during his work in the company. Please choose the answer, which best represents your feeling, from the choices provided (Never,……, Very often) for each question.

While working in the company the last two years, how often do you:

Questions	Never	Almost never	Some times	Fairly often	Very often
1-feel resentment and hostility toward the firm and its representatives?	1	2	3	4	5
2-feel work stress and frustrated?	1	2	3	4	5
3-feel anxiety and anger due to the scarceness of related information?	1	2	3	4	5
4-feel that your work stress affects your family life?	1	2	3	4	5
5-feel worry about changing your Position?	1	2	3	4	5
6-feel concern about losing your colleagues and friends?	1	2	3	4	5
7-feel insecure in your current job?	1	2	3	4	5
8-feel concern about taking a pay cut?	1	2	3	4	5
9-feel worry about your opportunities to advance in the new company?	1	2	3	4	5
10-feel unable to fit with your company's culture?	1	2	3	4	5
11-feel that the company strategy affects your pension and incentive plans?	1	2	3	4	5
12-felt that company strategy affects your medical insurance negatively?	1	2	3	4	5
13-felt that company strategy affects your holidays and sick pay systems negatively?	1	2	3	4	5
14-felt that company strategy affects Your annual bonus/profit sharing plans negatively?	1	2	3	4	5

Second: Culture differences

The following items relate to the **Beliefs and Assumptions** that top management sees about the importance of some business practices and procedures, and how things should be done for the success of a business. Please circle the most appropriate answer, which represents your perception, from the choices provided (Very different,…., Very similar) for each items

To what extent that top management in the company differ now from that before 3-5 years in the following managerial practices and procedures?

Items	Very different	Different	Neutral	Similar	Very similar
1- Managers share information and communicate with other subunits of the company.	1	2	3	4	5
2- High autonomy in decision-making is given to managers.	1	2	3	4	5
3- Managers respond to change in the business environment quickly.	1	2	3	4	5
4- Top management provide support and warmth to those managers below them.	1	2	3	4	5
5- compensation for managers are competitive with similar companies	1	2	3	4	5
6- Rewards and recognition are based on a manager's performance.	1	2	3	4	5
7- There are continuous pressure to improve personal and group performance	1	2	3	4	5
8- Managers develop and maintain interrelationship with managers of other departments.	1	2	3	4	5
9- Mangers are encouraged to be innovative and take independent actions and reasonable risk.	1	2	3	4	5
10- Managers are innovative rather than conservative in decision-making.	1	2	3	4	5
11- Various subunit managers are make efforts to understand each other's problems and difficulties.	1	2	3	4	5
12- Formal rules and procedures are followed in making decisions and carrying out all activities.	1	2	3	4	5
13- Managers are encouraged to expose conflicts and to seek ways to solve them.	1	2	3	4	5
14- Managers are encouraged to recognise and seize good opportunities once they arise.	1	2	3	4	5

Third: Mechanisms for managing the change

1-Procedural justice

The following items are designed to help measuring **the perception of procedural justice** in your company. Please choose the answer, which most represents your perception about the procedural justice, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-The company management takes sufficient care to protect the rights and benefits of all employees.	1	2	3	4	5
2-Regarding appraising process, employees are treated equally with regard to race, status and nationality.	1	2	3	4	5
3- Those who are laid off had the opportunity to appeal their layoff.	1	2	3	4	5
4- Nepotism and favouritism play role in the process of employment.	1	2	3	4	5
5- In our company, it is difficult to punish member of your tribe, family, relatives or friends.	1	2	3	4	5
6- Rights of employees couldn't be ensured in our company because of the absence of labour unions.	1	2	3	4	5
7- The social interrelationship and courtesies often limit the possibilities of benefiting the Saudis potentiality and energies.	1	2	3	4	5
8- Our management gives all employees equal opportunities with regard to career advancement and treatment.	o	2	3	4	5
9- Experience and competent are the bases of the employees' promotion and compensation.	1	2	3	4	5
10- Nepotism could play role in the promotion and compensation plans.	1	2	3	4	5
11- We found much difficulty to layoff Saudis due to the Saudisation policy.	1	2	3	4	5
12-The majority of the employees who usually have been laid off are foreign employees.	1	2	3	4	5
13- Employees usually are given incentives and benefit against laying them off.	1	2	3	4	5

2- Programmes to cope with the business environment

The following items are designed to help explore the programmes used to help and inform employees **to cope with the changing environment**. Please select the answer, which represents the programmes your company used, from the choices provided (Not used at all,....,Used very often) for each item.

To what extent your company used the following programmes?

Items	Not used at all	Used little	Used moderate	Used often	Used very often
1-Training programmes for managers to deal with employees concerns during organisational and individual changes.	1	2	3	4	5
2-Financial incentives are given to employees to encourage them to cope with restructuring programmes.	1	2	3	4	5
3-Employee morale surveys to recognise and solve the problems associate with the change.	1	2	3	4	5
4-Career counselling programme (i.e., clarify career options in the new organisation).	1	2	3	4	5
5-Skills retraining programmes to enable employees to capture the appropriate skills required in the organisation.	1	2	3	4	5
6-Teambuilding programmes in order to enhance the spirit of teamwork	1	2	3	4	5
7-Other programmes used (please specify)					

3- Media of communication

The following items are designed to help explore the **media** that have been used by management **to communicate** information that help employees understand the events and conditions relating to the company and its environment. Please select the answer, which represents the programmes your company used, from the choices provided (Not used at all,….,Used very often) for each item.

To what extent has your company used the following media to communicate with its employees?

Items	Not used at all	Used little	Used moderate	Used Often	Used very often
1- the company's regular newsletter.	1	2	3	4	5
2- Letters, memos and/or videotaped messages.	1	2	3	4	5
3- A 24-hour telephone "hotline" to answer employees' questions and enquiries.	1	2	3	4	5
4- Personal meetings with supervisors.	1	2	3	4	5
5- Town hall meetings.	1	2	3	4	5
6- Local newspapers.	1	2	3	4	5
7- Co-workers and colleagues at work.	1	2	3	4	5
8- Employees informal groups (café, restaurant, common room, etc).	1	2	3	4	5
9- Customers and friends at other company.	1	2	3	4	5
10- Others (please specify).					

4-Communication and co-ordination strategies

The following statements are designed to help measure **the communication plans** used by your company. Please choose the answer, which most represents the plans your company used, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

To what extent has your company used the following communication and coordination plans?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-communication with employees was done as soon as information relevant to them is known.	1	2	3	4	5
2-Communication with employees was done at the last minute so as to avoid disruption.	1	2	3	4	5
3-Communication with employees was based on honest and accurate information.	1	2	3	4	5
4-Communication with employees was optimistic so as to build hope.	1	2	3	4	5
5-Communication with employees was pessimistic so as to avoid building expectation.	1	2	3	4	5
6-Non-offecial communication through rumours is used extensively to provide the employees with related information.	1	2	3	4	5
7-Purposeful network of relationships was designed to link the company with its key stakeholders (shareholders, creditors, suppliers etc.).	1	2	3	4	5
8-Specialists and taskforce are used to enhance the link between the company and its interest groups (suppliers, customers, government agencies etc.).	1	2	3	4	5
9-There is no obvious mechanism that links our company with its key stakeholders.	1	2	3	4	5
10-Others (please specify)					

Forth: External environment

1- Understanding the environment

The following statements represent some of the key environmental factors that influence the organisations. Please indicate to what extent that you agree or disagree with each statement by choosing response No.1 (Completely neglected) if the factor was not analysed at all. If the factor was comprehensively analysed and understood choose response No.5 (thoroughly considered). The responses 2, 3, and 4 enable you to choose intermediate position.

To what extent has the company considered the following environmental factors

Factor	Complete neglected	Neglected	Considered a little	Considered	Thorough considere
1- Saudi economic has faced recession and instability during the last decade.	1	2	3	4	5
2- Saudi government has reduced the subsidies and capital spending considerable.	1	2	3	4	5
3-Challenges that will be brought about by joining Saudi Arabia World Trade Organisation.	1	2	3	4	5
4- Opportunities that will be available in the global market when Saudi Arabia joins WTO.	1	2	3	4	5
5- Government rules and regulations that could influence the company operations.	1	2	3	4	5
6- Opportunities and threats that are brought about by advance technologies (internet, ….).	1	2	3	4	5
7- Saudisation policy implications.	1	2	3	4	5
8- financial institutions and Saudi stock market.	1	2	3	4	5
9- Suppliers positions and strategies.	1	2	3	4	5
10- Buyers bargaining power.	1	2	3	4	5
11-New firm entry into your industry.	1	2	3	4	5
12-Rivalry among existing firms in the industry that your organisation operates in	1	2	3	4	5

The following items relate to the time and way a company assesses its environment, please select the appropriate choices.

To what extent do you agree or disagree with the following items?	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-The company environment assessment is primary based on the information provided by planning departments.	1	2	3	4	5
2- The company environment assessment is primary based on the information provided by marketing departments	1	2	3	4	5
3- The assessment is primary based on the information provided by company various levels.	1	2	3	4	5
4-Environment assessment is conducted each year.	1	2	3	4	5
5-Environment assessment is conducted continuously.	1	2	3	4	5
6-There is no clear way or specific time to conduct the assessment, but it depends on the company's situation.	1	2	3	4	5

2- Organisation coherence

The following items are designed to help explore **how your company hold together while developing**. Please choose the answer, which represents your opinion, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1- Our company often faces financial difficulties because of the huge investment required by the company's strategy	1	2	3	4	5
2-Our company lacks the managerial experience and knowledge to manage the strategy process.	1	2	3	4	5
3-Our company lacks the operative skills and competence to conduct the strategy process.	1	2	3	4	5
4-The company's strategy implementation often delays many times because of lacking the required material and technology resources.	1	2	3	4	5
5-The company's strategy is not compatible with the prevailing values and beliefs in our company.	1	2	3	4	5
6- The company's strategy is consistent with the purpose and goal of our companies.	1	2	3	4	5
7-In our company, it is prevailing that the success for one organisational department could mean or interpret failure for another.	1	2	3	4	5
8-Our company's strategy often uses effectively to exploit the strengths of our company.	1	2	3	4	5
9- The company's strategy enables us to seize the opportunities available in the environment successfully.	1	2	3	4	5
10- The weakness of our company is often overcome (supported) by its strength.	1	2	3	4	5
11- Threats which are imposed by the Saudi economic conditions and globalisation is confronted successfully by our strategies.	1	2	3	4	5
12- Our developing strategies are difficult to foster and deliver within the confines of our corporate culture.	1	2	3	4	5

3- Competitive advantage

There are factors, in any business environment, which could affect a firm's ability to achieve **competitive advantage**. Please choose the answer, which represents your company competitive advantage, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-It is strategically advantageous to our company to be larger in today business environment.	1	2	3	4	5
2- Our competitive advantage in our company stems from the way we manage human resource issues (selection, training and motivation etc.).	1	2	3	4	5
3- Employees skills and knowledge that supported by learning-by-doing are the main source of our competitive advantage.	1	2	3	4	5
4-The company's culture that supports innovation and creativity is the main source of our competitive advantage	1	2	3	4	5
5- The number and abilities of the companies operate in our industry are limited, this support our position in the market.	1	2	3	4	5
6- Entry barriers to our industry as result of economy of scale, product differentiation, and the huge capital requirement often impede new company entry.	1	2	3	4	5
7-We often create and maintain a close relationship with suppliers for getting high quality inputs and quick responses.	1	2	3	4	5
8- our strategy aims at building effective relationship with financial institutions, this enables us to get good services at appropriate terms.	1	2	3	4	5
9- Protection and subsidies that are offered by the government are a main source of our competitive advantage.	1	2	3	4	5
10- Government development funds provide us with great opportunities to build our competitive advantage.	1	2	3	4	5
11- The basic physical infrastructure (such as transportation and communication system) confers a unique competitive advantage for us.	1	2	3	4	5

Fifth: The outcomes

1- Commitment and trust

The following statements are designed to help measure employee commitment and organisational trustworthiness. Please choose the answer, which represents your opinion about your company, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

To what extent do you agree or disagree with the following items?

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1-I trust my organisation.	1	2	3	4	5
2-I believe that the company's management knows what it is doing.	1	2	3	4	5
3-My co-workers have been quite mistrustful of top management since they assigned	1	2	3	4	5
4-I feel very loyal to the organisation.	1	2	3	4	5
5-The new management often says something, but it does some thing else.	1	2	3	4	5
6-When someone praises this organisation I feel like a personal compliment.	1	2	3	4	5
7-I feel a sense of ownership for the company.	1	2	3	4	5
8-General speaking, I am very satisfied with working in the company.	1	2	3	4	5
9-I frequently think of quitting the company.	1	2	3	4	5

2- **Organisation performance**

Please use the scale below to show the level of performance of your organisation comparing your organisation with any other major competitor. Using the scale below, please circle the appropriate number that reflects your organisational performance in each factor (criterion) below the current year and the last two years. I mean here by **industry:** a group of companies that practices the same or similar activities. For example, bank and insurance companies work in the same industry.

Financial performance scale:

Poor	Below industry average	Average	Above industry average	Excellent
1	2	3	4	5

	Current year	**Two years ago**
1-Sales growth	1 2 3 4 5	1 2 3 4 5
2-Return on assets	1 2 3 4 5	1 2 3 4 5
3-Market share	1 2 3 4 5	1 2 3 4 5
4-Stock price	1 2 3 4 5	1 2 3 4 5
5-Overall performance	1 2 3 4 5	1 2 3 4 5

Non-financial performance scale:

Poor	Below industry average	Average	Above industry average	Excellent
1	2	3	4	5

Compared to the major competitor in your industry, please rate your company in the current year and the last two years on the following indicators.

1- Quality of services	1 2 3 4 5	1 2 3 4 5
2- Operations efficiency	1 2 3 4 5	1 2 3 4 5
3- Public image and goodwill	1 2 3 4 5	1 2 3 4 5

To what extent are you confident about the above answers?
{ } Very confident
{ } Confident
{ } Not confident

Sixth: Top management attitude toward Mergers and acquisition

The following statements are designed to explore Saudi's **company's attitude** toward M&As. Please choose the answer, which represents your opinion, from the choices provided (Strongly disagree, ……, Strongly agree) for each item.

Items	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1-It is very important for Saudi's companies to pursue merger/acquisition strategies to face business challenges.	1	2	3	4	5
2-Saudi's companies are often reluctant to pursue Mergers strategies since they might not have enough experience and knowledge to conduct such strategy.	1	2	3	4	5
3-Mergers/acquisitions often lead to monopoly.	1	2	3	4	5
4-Saudi's companies often reluctant to adopt merger strategies because they fear that they may lose management control over their companies.	1	2	3	4	5
5-Small number of mergers and acquisitions in the Saudi market because these strategies are ineffective in Saudi Arabia.	1	2	3	4	5
6- Small organisations must recognise that they are not self-sufficient.	1	2	3	4	5
7- In the future, both large and small companies increasingly will be acquired or merged with other to achieve success.	1	2	3	4	5
8-Infrequency of mergers/acquisitions in Saudi Arabia can be attributed to the unavailability of specialised centres for mergers and acquisitions.	1	2	3	4	5

General questions (Biographical Information)

1- Name of your company ---------------------------------------

2- Main activity (Activities)------------------------------------

3- What is your organisational position-----------------------

4- How long you have been in this organisation?

{ }Less than 5 years-
{ }In the range 5-10
{ }In the range10-15
{ }In the range 15-20
{ }In the range 20-25
{ }More than 25 years

5- How do you see your experience in your job?
- Above average
- Average experience
- Inexperience

6- What is the approximate total number of employees in your organisation?
{ } Less than 100
{ } In the range 100-500
{ } *In the range 501-1000*
{ } In the range 1001-1500
{ } In the range 1501-3000
{ } More than 3000

7- Country of citizenship.
{ } Saudis
{ } Arab
{ }Europe
{ } American
{ } Other, please specify, ---

8-Does the company have a partnership with the government or foreign company?
{ } Yes { } No
If the answer is (Yes), please specify:
- **Government share:**

{ }Less than 10% { }10- 20% { }21-35% { }36-50 { }51-75%
{ }100% government
- **Foreign company share:**

{ }Less than 10% { }10-20% { }21-35% { }36-50% { } more than 50%

9- Type of merger:
{ } Acquisition: a company buys another company.
{ }Horizontal merger: the merging companies work in the same industry.
{ }Vertical merger: the merging companies work in integral activities.
{ } Others (please specify)--

10- Legal form of the company:
{ }Joint stock { }Partnership { }Limited Partnership { }Limited liability
{ } Other (please specify)--

11- If you have any comments or opinions regarding the subject of the questionnaire please write them down:

Here, I would like to express my appreciation and gratefulness for your cooperation and the valuable time and effort you spent in filling out the questionnaire.

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