This dissertation has been microfilmed exactly as received

JOHNSON, Herbert James, 1933-
THE INTEGRATION OF ORGANIZATIONAL COMPONENTS THAT HAVE BEEN ACQUIRED THROUGH MERGER.

The Ohio State University, Ph.D., 1965
Economics, commerce-business

University Microfilms, Inc., Ann Arbor, Michigan
THE INTEGRATION OF ORGANIZATIONAL COMPONENTS
THAT HAVE BEEN ACQUIRED THROUGH MERGER

DISSERTATION

Presented in Partial Fulfillment of the
Requirements for the Degree of Doctor of Philosophy
in the Graduate School of
The Ohio State University

By

Herbert James Johnson, B.B.A., M.B.A., C.P.A.

* * * * * *

The Ohio State University
1965

Approved by

Ralph Currier Davis
Adviser
Department of
Business Organization
PREFACE

The corporate merger has become an important aspect of business activity. Often the desired values inherent in a merger are hampered by incomplete consideration to all the factors, forces, effects, and relationships involved. Proper attention is not given to the management philosophies of the two firms merging and the difficulties associated with resistance to change are often overlooked. The effective integration of organizational interests requires formal efforts in combining and unifying thought and action of the two separate organizations into one compatible group.

The material in this work is the result of extensive primary and secondary research, some of which has extended over a period of many years. The writer has been closely involved in five mergers, either in the capacity of consultant or corporate executive. It became obvious from this experience that much was lacking in the effective planning for the integration of organizational interests. It is the intent of this work to add value in the resolution of this problem.

Thanks are due for help given in the performance of this work by the many respondents who added valuable insight
to the study. These included the questionnaire respondents (corporate executives and management consultants), the seventeen executives who took valuable time to submit to depth interviews, and the company that allowed the case study that is presented in Appendix C. Special appreciation is due many respondents who made an especially comprehensive response that obviously took a great deal of time and effort.

The writer gratefully acknowledges the effort made by the dissertation committee composed of Professor Ralph Currier Davis, Chairman; Professor William E. Schlender; and Professor Ralph M. Stogdill. Dissertation committees are rumored to be notoriously slow in performance, but nothing could be further from the truth in this case. Submitted material was promptly returned, along with well-developed suggestions for changes and improvements. As an example of the cooperation received, Professor Davis took time to offer valuable consultation during the time of a Symposium in his honor at The Ohio State University.

The cost of the primary research would have created a small pocket of poverty had it not been for the aid given by the Bureau of Business Research at The Ohio State University. Professor James C. Yocum spent many hours working with the questionnaires and cover letters. The
Bureau handled the printing and mailing of questionnaires, as well as the tabulation of results. Mr. Omar Goode is due special thanks for his effort in the results' tabulation.

Special appreciation is expressed to my wife, Carla, who was responsible for editorial comments. In addition, Carla and Rebecca Moore worked many hours in taking dictation and typing the work.

Herbert J. Johnson

Houston, Texas
April, 1965
VITA

March 25, 1933 Born--New York, New York


1958-1960 . . Part-time Instructor, Department of Management, University of Houston, Houston, Texas

1956. . . . . B.B.A., University of Houston, Houston, Texas

1956. . . . . C.P.A., Texas

1956. . . . . M.B.A., University of Houston, Houston, Texas

1963-1964 . . Assistant, Department of Business Organization, The Ohio State University, Columbus, Ohio

1964-1965 . . Assistant Professor, Department of Accounting, University of Houston, Houston, Texas

FIELDS OF STUDY

Major Field: Management (Professor R. C. Davis)

Minor Fields: Economics (Professor Robert Patton)

Marketing (Professor T. N. Beckman and Professor William R. Davidson)

Behavioral Science (Professor Ralph M. Stogdill)
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>PREFACE.</td>
<td>ii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF ILLUSTRATIONS</td>
<td>ix</td>
</tr>
<tr>
<td>Chapter I. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>Reasons for Merging</td>
<td></td>
</tr>
<tr>
<td>The Problem Defined</td>
<td></td>
</tr>
<tr>
<td>Objectives and Scope of This Work</td>
<td></td>
</tr>
<tr>
<td>Methodology</td>
<td></td>
</tr>
<tr>
<td>Definition of Terms</td>
<td></td>
</tr>
<tr>
<td>Chapter II. THE NEED FOR A SOUND PHILOSOPHY</td>
<td>27</td>
</tr>
<tr>
<td>The Importance of a Sound Philosophy</td>
<td></td>
</tr>
<tr>
<td>Organizational Model</td>
<td></td>
</tr>
<tr>
<td>Chapter III. RESISTANCE CAUSED BY CHANGE IN THE ENVIRONMENT</td>
<td>79</td>
</tr>
<tr>
<td>Resistance to Change</td>
<td></td>
</tr>
<tr>
<td>Retrenchment as a Part of Change</td>
<td></td>
</tr>
<tr>
<td>Considerations in Determining the Program of Change</td>
<td></td>
</tr>
<tr>
<td>Determining Responsibility for Accomplishment</td>
<td></td>
</tr>
<tr>
<td>Chapter IV. THE MANAGEMENT OF A MERGER</td>
<td>120</td>
</tr>
<tr>
<td>General Approach to the Integration of Organizational Interests</td>
<td></td>
</tr>
<tr>
<td>The Timing of Organizational Integration</td>
<td></td>
</tr>
<tr>
<td>Management Functions Involved in the Integration of Organizational Interests</td>
<td></td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

(Continued)

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>V. EMPIRICAL FINDINGS</strong></td>
<td>151</td>
</tr>
<tr>
<td>Description of Questionnaires</td>
<td></td>
</tr>
<tr>
<td>Findings</td>
<td></td>
</tr>
<tr>
<td>Responses Compared with Nature and Size of Firms</td>
<td></td>
</tr>
<tr>
<td>Depth Interview Results</td>
<td></td>
</tr>
<tr>
<td>Case Study</td>
<td></td>
</tr>
<tr>
<td><strong>VI. A PROGRAM FOR INTEGRATION OF ORGANIZATIONAL INTERESTS.</strong></td>
<td>194</td>
</tr>
<tr>
<td>Prerequisites to Program Determination</td>
<td></td>
</tr>
<tr>
<td>Consideration to Needs for Retrenchment in a Merger</td>
<td></td>
</tr>
<tr>
<td>The Program for Integration of Organizational Interests</td>
<td></td>
</tr>
<tr>
<td><strong>VII. SUMMARY AND CONCLUSIONS</strong></td>
<td>235</td>
</tr>
<tr>
<td><strong>APPENDIXES</strong></td>
<td></td>
</tr>
<tr>
<td>A. Consultant Questionnaire</td>
<td>247</td>
</tr>
<tr>
<td>B. Corporate Executive Questionnaire</td>
<td>258</td>
</tr>
<tr>
<td>C. Case Study</td>
<td>264</td>
</tr>
<tr>
<td>D. Company Check List</td>
<td>291</td>
</tr>
<tr>
<td><strong>BIBLIOGRAPHY</strong></td>
<td>303</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Merger of the 500 Largest Industrial and 50 Largest Merchandise Firms for the Period 1930-1961.</td>
<td>4</td>
</tr>
<tr>
<td>2. Industrial Experience of Respondents</td>
<td>158</td>
</tr>
<tr>
<td>3. Industrial Experience of Respondents (Size of Firms)</td>
<td>159</td>
</tr>
<tr>
<td>4. Reasons for Merger</td>
<td>161</td>
</tr>
<tr>
<td>5. Importance of Various Factors in Planning</td>
<td>165</td>
</tr>
<tr>
<td>6. Response to Difficulty of Consummating a Merger under Various Circumstances</td>
<td>168</td>
</tr>
<tr>
<td>7. Period of Time Required to Resolve Integration of Interests Problems</td>
<td>170</td>
</tr>
<tr>
<td>8. Level of Morale Predictions Where No Formal Program for the Integration of Organizational Interests Exists</td>
<td>177</td>
</tr>
<tr>
<td>9. Reasons for Management Turnover in Acquired Company Attributable to Merger</td>
<td>180</td>
</tr>
<tr>
<td>10. Rank Order of Importance—Reasons for Managerial Turnover</td>
<td>181</td>
</tr>
<tr>
<td>11. Sample of Responses Based upon Firm Size</td>
<td>185</td>
</tr>
</tbody>
</table>
# LIST OF ILLUSTRATIONS

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Factors and Forces Affecting Organizational Systems</td>
<td>35</td>
</tr>
<tr>
<td>2.</td>
<td>Objectives of the Direct and Indirect Members of a Business Organization</td>
<td>44</td>
</tr>
<tr>
<td>3.</td>
<td>The Organic Functions of Control</td>
<td>143</td>
</tr>
<tr>
<td>4.</td>
<td>Per cent of Corporations Reporting Each Period Originally Not Planning to</td>
<td>179</td>
</tr>
<tr>
<td></td>
<td>Terminate That Have Since Terminated Personnel</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Sources of Information for Data Collection Audit</td>
<td>221</td>
</tr>
<tr>
<td>6.</td>
<td>Data Collection Audit Program for the Integration of Organizational Interests</td>
<td>225</td>
</tr>
</tbody>
</table>
CHAPTER I
INTRODUCTION

Every year hundreds of civil ceremonies that legally bind separate organizations together in industrial wedlock are performed throughout the United States. This phenomenon, known as the corporate merger, is one of the results of our industrialization process. The significance of the corporate merger as a tool of industry is relatively recent. Its importance dates back to around the turn of the century.

Historians recognize three significant merger movements in the twentieth century. The first dates from 1898 - 1902. During this period many small and middle-sized firms were transformed by merger into industrial empires. The principal objective was to gain control of the markets through both vertical and horizontal integration. Typical of the firms that gained their original impetus during this period are: United States Steel

1"Mergers and Subconcentration - Acquisitions of 500 Largest Industrial and Fifty Largest Merchandise Firms." Staff Report of the Select Committee on Small Business - House of Representatives, 87th Congress. U. S. Government Printing Office, November 8, 1962. The historical background that follows was derived from this source.
Corporation, American Tobacco Company, American Sugar Refining Company, General Electric Company, United States Rubber Company, United States Leather Company, Pittsburgh Plate Glass Company, National Biscuit Company, American Car and Foundry Company, and Eastman Kodak Company. The merger is considered by many to be the most important factor in changing the business environment of the nineteenth century to that of the twentieth century.

The second major movement spans the years 1926 through 1930. Its purpose was much the same as that of the first period. It was also an attempt to reduce costs and achieve economies of scale in order to compete better in an era of difficult business operation. This movement included many organizations involved in the first movement and also signaled the beginnings of other industrial giants.

The third movement is not as concentrated as the first two. It covers almost twenty years, dating from the end of the Second World War and continuing to this day. As with the two previous periods of extensive merger activity, the purpose of this period has been to expand horizontally and vertically. However, it has also fostered the conglomerate merger. Horizontal expansion is expansion in the same line of business at the same level in the channel of distribution. Its object is primarily to expand volume within the present geographic market, to enter new
geographic markets, to extend and broaden product offerings, and to develop substitute products. Vertical expansion is expansion of the firm into a level of the channel of distribution other than the one in which the organization is presently engaged. The desire to control sources of supply or retail outlets may be the impetus to vertical expansion. In the conglomerate merger the firm expands into areas of endeavor foreign to its present operations. Its intent is to diversify risks into new market areas and industries. Table 1 shows the number of firms that have disappeared during the last thirty years as a result of acquisition by the 500 largest industrial and the fifty largest merchandise firms. It is not a complete picture of the total mergers per year, as it does not include mergers in such important industries as transportation, mining, utilities, finance, insurance, and services, among others. It also does not reflect mergers of firms not in the top 500 industrial or fifty merchandise firms. This writer was not able to find any accurate measurement of the number of mergers completed annually. However, based upon partial reporting in different industries, it is estimated that currently there are somewhere between 1,200 and 1,500 mergers concluded each year. A more detailed analysis of merger by industries will be reported at a later point in this work.
### TABLE 1

Mergers of the 500 Largest Industrial and Fifty Largest Merchandise Firms
For the Period 1930 - 1961

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Year</th>
<th>Number</th>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>799</td>
<td>1941</td>
<td>111</td>
<td>1952</td>
<td>288</td>
</tr>
<tr>
<td>1931</td>
<td>464</td>
<td>1942</td>
<td>118</td>
<td>1953</td>
<td>295</td>
</tr>
<tr>
<td>1932</td>
<td>203</td>
<td>1943</td>
<td>213</td>
<td>1954</td>
<td>387</td>
</tr>
<tr>
<td>1933</td>
<td>120</td>
<td>1944</td>
<td>324</td>
<td>1955</td>
<td>525</td>
</tr>
<tr>
<td>1934</td>
<td>101</td>
<td>1945</td>
<td>333</td>
<td>1956</td>
<td>537</td>
</tr>
<tr>
<td>1935</td>
<td>130</td>
<td>1946</td>
<td>419</td>
<td>1957</td>
<td>490</td>
</tr>
<tr>
<td>1936</td>
<td>126</td>
<td>1947</td>
<td>404</td>
<td>1958</td>
<td>457</td>
</tr>
<tr>
<td>1937</td>
<td>124</td>
<td>1948</td>
<td>223</td>
<td>1959</td>
<td>656</td>
</tr>
<tr>
<td>1938</td>
<td>110</td>
<td>1949</td>
<td>126</td>
<td>1960</td>
<td>635</td>
</tr>
<tr>
<td>1939</td>
<td>87</td>
<td>1950</td>
<td>219</td>
<td>1961</td>
<td>671</td>
</tr>
<tr>
<td>1940</td>
<td>140</td>
<td>1951</td>
<td>235</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reasons for Merging

Man organizes because he has found that he can function more effectively in a group than as an individual in the accomplishment of a mission. Although this may seem to be an oversimplification, it can be argued that this is the basic postulate or rationale for organizing, no matter what the objective. Whether the purpose be basic—the need to satisfy the urge for survival or for love and esteem—or compounded—the need for coordination of large activity—man chooses to organize because he has found that this enhances his ability to accomplish his desired goal.

In an economic sense, man organizes to gain division of labor and specialization of effort beyond that which he can accomplish as an individual. Adam Smith makes this point in the opening statement of his great work, The Wealth of Nations: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and the judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour." He goes on at a later point (page 7)

to say: "The greatest increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances: first, to the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."

An organization, therefore, is a vehicle or device for the more efficient achievement of a variety of group objectives. Organization is not itself the end, but merely the means of achieving most effectively the desired end of all concerned. As a society changes from one dominated by rural influences to one with an urban atmosphere, the very mode of life changes. Self-sufficiency (at least at the family level) is replaced by an intricate system of interdependence and proximity of living. The development of organizational techniques has been the only way society has been able to cope with the complexities of urban life. Indeed, no interdependent group could survive without some form of organization.

To survive in the long run every business organization must retain a capacity for growth. Growth is absolutely necessary, the alternatives bring complacency and
ultimate stagnation. A company has the choice of attempting to achieve its goals through three policies: (1) internal growth or expansion; (2) external growth or expansion; or (3) some combination thereof. Internally, the company may elect to plow back a good portion of net earnings after taxes or may make use of a leverage factor by establishing its credit requirements. Externally, the company may issue new stock to raise the capital requirements, or, it may expand its activity and/or capability by entering into an organizational combination with some other firm.

An organizational combination, for purposes herein, is one in which two or more previously independent firms have been joined to form one organization. The organization formed may be a new one (consolidation) or the survival of one of the previous organizations (merger). The resultant company will be larger than the previous two in a horizontal and/or vertical manner. That is, the expansion will result in more activity at the same level of business operations.

---

3 A leverage factor is gained by using borrowed funds from creditors at a fixed rate of interest.

4 These are various possible alternatives. However, it should be remembered that for any given company one or more of these alternatives could be beyond reach.

5 Since for purposes herein the results of consolidation or merger are similar in that a new group of persons is formed, we will henceforth refer only to a merger situation.
endeavor or in the addition of levels of activity to those in which the company was previously engaged. For example, a manufacturing concern adding new plants through a merger would be expanding horizontally. A manufacturing concern adding sources of raw materials, wholesale outlets, or retail outlets would be expanding vertically.

The Problem Defined

The combination of two separate groups in approximately the same physical space will not lead automatically to the dissolution of the previous groups in favor of a new third group. Even in close proximity, the result may be conflict, not integration.

This is best explained in the form of an illustration. When a new employee is hired by an organization, his initial reaction will normally be a feeling of loneliness and isolation. Only as he begins to acquire the ways of the group does he become a part of it. The very fact that he is alone accelerates his efforts toward group acceptance. When two previously strange groups are brought together, under conditions where one group moves into surroundings previously occupied by the other group, the entire group will experience the same isolation as the individual. Of course, no one individual is completely alone, but rather is a member of a group. Each group may reinforce itself
against the other so as to restrict a cohesive combination of the members. The very newness of the situation may act as a reinforcing agent against combination. In the short run, this will cause a great deal of damage to the new organization. Rather than cooperating the two groups will be in direct conflict. It is common to find the more powerful group dominating in an outward manner. The less dominant group will be in conflict with the activity in an underground manner, leading to a situation ripe with frustration and intrigue. This can result in internal power struggles detrimental to the purpose of the organization, individual conflict leading to poor levels of productivity, ineffective morale, and detrimental employee turnover.\textsuperscript{6}

In business mergers, or other forms of organizational consolidations, it is a preconceived necessity that all financial activities of the two predecessor organizations be integrated on a mutually acceptable basis. A great deal of money will be expended to assure proper consummation of

\textsuperscript{6}Hubert Bonner, \textit{Group Dynamics--Principles and Applications} (New York: The Ronald Press Company, 1959), p. 106. "Human learning under normal circumstances is social learning. Socialization is the process of learning the ways of a group--its attitudes, values, beliefs, and prejudices. If our attitudes persist it is not because they are in themselves inclined to be long lived or permanent, but because the group is constantly reinforcing them and thereby making them resistant to extinction."
the legal integration of interests. However, consideration to the integration of managerial and operative personnel and facilities is largely ignored and handled only on an emergency basis as the need arises. The agonizing after-effects of incompatible combinations are testimony to this unrealistic approach. The basic problem herein is to determine the nature and cause of these problems and to suggest solutions for them.

**Objectives and Scope of This Work**

The desired objectives of this work are two-fold: first, the development of new knowledge concerning the conflicts that interfere with the effective accomplishment of organizational integration; and second, the attempt to develop methods of minimizing these conflicts. In pursuit of these objectives, three hypotheses have been established. The purpose of this work will be the validation of the first two hypotheses and a discussion of the implications of the third hypothesis. The validation of the first two hypotheses will lay the groundwork for the establishment of a program, the third hypothesis.

The first hypothesis is that in a merger situation, as a general rule, a minimum of time and effort is formally expended in attempting to integrate the components into a cohesive group. The writer will attempt to prove at this
point that few companies recognize a need for the formal integration of ideas, leading to unity of thought and action for the accomplishment of the mission. The contention that only superficial steps are taken toward the integration of personnel is also examined. Most companies just feel their way along with the idea that things will probably work out or that time will heal the wounds if any develop. The second hypothesis is that the lack of consideration given to formal integration of components normally results in a period of inefficiency, inadequate control, excessive conflict, reduced level of morale and commensurate personnel problems, and turnover that could otherwise be minimized or completely avoided. Here the purpose is to attempt to put a label on problem areas that develop in a merger situation. The recognition that something is wrong is not enough, because this will probably lead to nothing more than an acknowledgment of the symptoms involved. What is of critical importance is the recognition of the primary and collateral difficulties. Only when this has been accomplished can an equitable solution be sought on a scientific basis.

The final hypothesis, predicated upon the first two, is that more effective planning and organizing of

7 This requires understanding, acceptance, and support of a common philosophy of management. This important consideration is discussed at length in Chapter II.
organizational components, coupled with an extensive audit of the management philosophy of the components, should lead to an integration of interests with greater economy and effectiveness. This hypothesis will be presented in the form of a recommended solution to the problem. Its scientific verification will remain outside the scope of this study. A highly sophisticated study in depth supporting this hypothesis would require the prolonged evaluation of a number of organizations (a) prior to the period of the merger, (b) during the merger period, and (c) for an indeterminate period of time after the merger. Such a study, to be conclusive, would require a good many years of effort.\(^8\)

This study will not give detailed consideration to the financial aspects of a merger. This has been adequately covered in the literature and has no direct bearing on the objectives of this work.\(^9\) Also, the study will emphasize

---

\(^{8}\)One can only speculate at the amount of time that would be necessary as the first problem would be to determine the period of time in which a merger influenced the activities and the personnel of an organization. It seems to take about three years despite differences in organizational size, product lines, and other factors, according to the literature. However, this is probably only the period of time during which various effects can be related back to the merger directly. The actual period is probably greater than this although not as readily perceived by those involved.

\(^{9}\)As a small sample of recent work that has been done see:
the administrative levels of management. This will facilitate data collection and can be justified on the grounds that (a) the severest integration problems occur at this level, and (b) the rest of the organization generally tends to reflect the actions and attitudes of its leaders.\(^{10}\)

However, it is recognized that the problems of administrative management include organizational problems that have their genesis from some other membership group of an


organization, for example, the operative levels. These issues will also be considered as they fall within the scope of administrative management.

Methodology

This problem will be analyzed from both a theoretical and an empirical point of view, utilizing the subject matter of both management and the behavioral sciences. Chapter II will be a discussion of the need for a sound philosophy of management. It will consider problems involving both the formal and informal organization.

Chapter III will examine the merger climate conducive to conflict. It will include a report of relevant studies pertinent to the area, as well as a discussion of underlying causes and means of reducing conflict.

Chapter IV will explore the probable consequences of ineffective integration. Chapter V will report the findings of the primary research. Chapter VI will involve a suggested program for minimizing the integration problems of a merger, and Chapter VII will incorporate general conclusions and recommendations of the study.

The research methods include both primary and secondary sources. The secondary research consists of a comprehensive

References to material in Chapter V will be made in other chapters as the need arises.
analysis of library materials and professional expert interviews. Excerpts from this research can be found throughout the study in footnotes and research sources included in their entirety in the bibliography at the end of the work. The purpose of this research was to gather an integrated body of basic facts and principles for the theoretical analysis of the problem. The information supplied a basis for validating the primary research and subsequent verification of results. Its collateral purpose was the assurance that the work was an original contribution of new knowledge to the field. It included: (1) a comprehensive search of library books and periodicals, (2) examination of dissertation files, and (3) a case study prepared on the basis of the writer's own experience in a merger situation from 1960 to 1963.12

The primary research was performed to collect data that could be used to develop a program. It also served as verification for the secondary research. The data collected attempt to measure (1) the degree of consideration given to formal integration of components, (2) the degree to which certain measurable factors are formally integrated in cases where conflict has developed. Representative factors measured included objectives, principles,

12The case study is reported in full in Appendix C.
policies, leadership, climate, environmental factors and procedures, and ill effects perceived as a result of lack of formal integration of organizational components. The primary research included:

(1) A questionnaire prepared and generally circulated among a sample of management consultants (including Certified Public Accountants who are engaged in management services and management consulting firms).

(2) The same questionnaire circulated among a sample of firms that have undergone a merger in the past two years.

(3) Interviews with a sample of the firms surveyed to include companies that have undergone a merger within the past two years.

Collecting data from management consultant sources is an indirect approach which may not be as effective as direct contact with merged companies. However, this approach is justified on the grounds that (a) as third persons, management consultants should have an objective, realistic viewpoint (management, for reasons of proximity, may not recognize its own problems), (b) one source can, in many cases, lend his experience on a number of mergers, (c) the difficulty of finding direct sources, and (d) the fact that these results were validated by a sample analysis of recently merged companies.
Definition of Terms

A business organization may be looked upon as a system. It is composed of an intricate network of inter-related and interdependent components. Each of these components may, in turn, be thought of as a sub-system within the major organizational system; and finally, each sub-system is composed of individual elements or organizational positions. The more cohesive the groups composing the system, the greater are the probabilities of effective performance. A cohesive organization is one in which all of the factors, forces, and relationships are functioning effectively in unison toward achieving the business objectives.

An Organizational Position

In a highly cohesive business organization, the individuals filling various positions can change from time to time without creating any major disturbance in the pattern or tone of the organization. Every position in the organization carries with it a high degree of consensus as to the predetermined patterns of behavior. The position is

---

well-defined in itself and as to the other positions with which it is interacting in a cohesive organization. To understand this fully, let us examine what is meant by the term "position."

Any individual involved in interaction is undergoing a type of stimulus-response relationship. The behavior of one person may act as a stimulus which will trigger a response from another. However, before a response can be given, the stimulus must be interpreted and evaluated. Unless the response is in the form of a physical reflex, the individual will have to apply some frame or frames of reference to the stimulus in order to gain understanding and make an interpretation. If the question were asked, for example, "What are your qualifications?", what would your answer be? Probably you would have other questions in mind before you would answer. This is true because not enough information was given in the question to establish the frames of reference within which to couch the response. You would want a clearer awareness of the inquirer's reference in order to be able to respond directly to the specific point of inquiry. This frame of reference may be referred to as a norm, and when two or more persons apply the same norms to interaction, this may be referred to as normative consensus. Without having shared norms,
two or more individuals will not be able to communicate a mutual understanding between themselves.

When an individual plays a given role, he is doing so through the combination of a cluster of norms. For example, when a superior interacts with his subordinate, each is carrying out a role with the other. That is, the role of superior carries with it certain expected patterns of behavior as to the subordinate; and conversely, the role of subordinate carries with it certain modes of behavior as to the superior. This characteristic behavior inherent in a role is based upon shared norms between the interacting members. Each member has preestablished expectations of the behavior of the other, based upon his conception of the other's role. Mutual interpretation of each person's role by the other leads to role consensus. A high degree of role consensus between interacting members of an organization results in a high degree of understanding and predictability among the organization members. In other words, problems of communication and coordination among the group are minimized because of the lower level of uncertainty in the patterns of behavior.

No individual member of the business organization performs only one role. Rather, in the performance of his responsibilities to the firm, he is carrying out a number of roles. The sum total of the formal (organizationally
defined) roles carried out by the individual may be stated as his formal, or official, position in the organization. Included in the definition of his formal position would be such factors as: (1) his relationship to others in the organizational chain of command; (2) the authority allocated to his position; (3) his relationship with his immediate superior and subordinates; (4) the specific functions performed in his position; (5) his formal status in the organization; and (6) the courses of action open to him in decision-making in light of stated business objectives, policies, and procedures, etc. In other words, his formal position defines the area of his status and his functions in relation to the planning, organizing, and controlling of the various factors, forces, and relationships under his jurisdiction.

Also related to the organizational position, however, are the informal role relationships. These are the role relationships that develop outside of the formal organization structure, but are, nevertheless, an influence upon the individual in the performance of the activities of his position within the firm. These roles relate the individual to the informal organization and will be of varying importance to the position, depending upon the influence of the informal organization over the formal organization.
The role expectations that are attached to a given organizational position will not completely define the position. A role is not a rigid stipulation of expected behavior. Rather, it tends to establish upper and lower limit boundaries to behavior. Within the confines of these limits, there is enough latitude in expected performance to allow the individual alternatives in methods of performance. This means that every individual filling a given position will perform somewhat differently from every other individual, due to personality and method differences. These differences between individuals will be the result of variances in education, practical experience, environmental factors, past training, intelligence, span of energy, basic individual philosophies, personality, etc.

**Organization Sub-systems**

Minor sub-systems within the business organization are comprised of a relatively small number of positions. One member of this small group functions as the superordinate, and the other members as subordinates. Thus, any supervisor and his immediate subordinates would form a minor organizational sub-system. The behavior within this small group is fairly well established, based upon the position definitions within the group. The greater the intragroup understanding of each person's position, the greater will be the
probability of all performing together in a cohesive manner. In effect, the efficiency of the group will be directly related to the degree of understanding of one's role by another within the group. This understanding will be important in consideration to such important concepts as the span of control of the superordinate, the degree of delegation to subordinates, and the general flexibility and stability of the particular group.

The subgroup discussed to this point has been defined in terms of the legal or formal organizational definition. It must be realized that basic subgroups will also form outside of the legal framework based upon informal role consensus. These subgroups will be the basis for the development of the informal organizational structure. Their importance to the over-all performance within the organization will depend upon the degree of uncertainty that is prevalent within the organization. That is, the greater the uncertainty and the less the acceptance of the legal or formal role relationships, the stronger will be the influence of the informal groups in organizational performance.

These sub-systems are involved not only in interaction within their own membership. They will also be interacting with other sub-systems in the organization on both formal and informal bases. The fact that sub-systems are in
themselves cohesive does not assure that they will continue as such in their interactions with other sub-systems. As with the individual position and the sub-system, sub-systems in combination for compatible interaction must have effective means of communication and strong bases for normative consensus.

Organizational Components

An organizational component is a grouping of interrelated sub-systems under the general supervision of one superordinate. Generally, a component is derived by accumulating sub-systems under one head on the basis of similarity of objectives, functions, or some other factor. Therefore, the positions or elements within an organizational component would, at least in a general way, be brought together on the basis of some form of internal consistency. For example, the marketing division of a firm as an organizational component would include membership whose primary interest and activity would be in the area of marketing as opposed to manufacturing, finance, or some other broad functional category.

An Organizational System

An organizational system is thus an interrelated network of major component sub-systems, which in turn are derived from a cluster of positions; and, as previously
discussed, an organizational position may be defined in terms of the formal role relationships and the informal role relationships which are established for the position. The various role relationships are based upon the cluster of established norms or frames of reference. Thus it can be readily seen that the whole framework of the organizational system rests upon the foundation of normative consensus. Without this normative consensus, there can be no basis for effective interaction among the membership of the groups. In turn, normative consensus requires effective communication; and finally, willingness to communicate is a necessary prerequisite to the communication process. In reality, there is herein a mutually dependent situation. Communication depends upon normative consensus; normative consensus depends on desire to communicate; and desire to communicate in turn tends to depend on communication. The resultant situation is one in which all three must necessarily be present, and each will tend in turn to reinforce the other. Conversely, the elimination of any one of these three factors will result in a blockage to the other two, leading to a degeneration of the entire system.

14 This position definition requires recognition of content relationships and interaction relationships.
When two companies are merged, the result is that two previously independent, complex systems are brought together with the intent of creating one by either (1) eliminating one of these systems, or (2) eliminating parts of both systems and creating a new system. For this attempt to be successful, there must be some form of adaptation process. Speaking generally, this indicates the necessity of adapting to one organizational philosophy. More specifically, this means developing normative consensus, desire to communicate, and communication among the members of the new organization. This task is not made any easier by virtue of the fact that a merger situation creates a condition of high degree of uncertainty. This is true because uncertainty is a result of change. Merger creates a change—a change not only of tangible values, but also of intangible factors such as the environment. A change in the environment may be perceived as good by all the organizational members or only by some, depending upon the given situation and the relative strength of each of the predecessor organizations. Thus, members finding themselves in a different environment will, as a natural response, become somewhat threat-involved. Some will reflect their feelings through defensive behavior, while others will tend to become aggressive in behavior—depending upon each individual's response to the threat-stimulus situation. Whether the behavior is defensive or
aggressive, there is little doubt that the affected membership will become ego-involved and respond accordingly. Thus, defensive ego involvement could result in voluntary termination, fear of participating, a generally poor attitude, or a strong desire to reach conformity in a manner detrimental to the organization. Aggressive behavior could result in strong resistance to change, retention of destructive, argumentative behavior, voluntary terminations, or organizational sabotage.

Integration of Organizational Interests
Integration of organizational interests may be defined as the formal attempt to combine and unify the thought and action of the two separate organizations into one compatible group. It includes considerations of such factors as business philosophy, management viewpoint, objectives, policy, procedures, leadership, personnel, the new organizational structure, etc.

Summary
Mergers have played a very significant part in our economy in the past and will continue to do so. Often, however, some of the value of the merger is lost due to ineffective consideration to the integration of organizational interests. The balance of this study will consider this problem.
CHAPTER II
THE NEED FOR A SOUND PHILOSOPHY

In a merger great emphasis is placed on formal inte­
gration of the legal and financial interests of the
organizations. Usually, however, little or nothing is done
to consider the need for formal integration of the compo­
nents of the two systems. As a result, internal conflicts
and frustrations develop that often lead to varying degrees
of incompatibility and their undesirable consequences. Some
conflicts cannot be avoided, especially when the merger
results in overavailability of personnel for positions. How­
ever, most companies undergoing mergers hope that a majority
of the personnel will be retained in the new organization
and are disappointed when things do not ultimately work out
that way.\textsuperscript{15}

Much could be done to avoid this dilemma if greater
effort were expended to establish a plan for the formal
integration of the components of the two organizations.
This requires the recognition of the basic tenets of the

\textsuperscript{15}See Chapter V for responses of corporate executives
of recently merged firms.
organizations' philosophies and the resolution of differences in philosophies before any effective planning for integration can be done. It also involves an extensive effort in effectively communicating the surviving philosophy to all members of both organizations.

The Importance of a Sound Philosophy

As discussed in Chapter I, the business organization may be defined as a complex system of interrelated components. These, in turn, are derived from the interrelationship of organizational positions. The organizational position is determined by: (1) the formally defined role relationships, (2) the informally established role relationships, and (3) the individual personality in the given position. The more definitive the formal role relationships of the organization, the less influential will be the informal roles and the individual personality in the functioning of the position. Within well-defined role limitations, the over-all organizational environment is a combination of formal organization interactions and informal organization interactions. The more effectively defined the formal role, the better will be the climate for the

---

16 The formal roles must be a reflection of a sound management philosophy and effectively define functions to be performed, as well as interaction patterns.
achievement of group solidarity. Any situation in which the formal organization is poorly defined, yet group solidarity is high, is a chance circumstance and a relatively unstable condition. This is true because an effective framework for retaining individual accountability for the effective discharge of responsibility can be established only by the formal organization.\textsuperscript{17} The informal organization, on the other hand, is in reality not one organization but a number of separate and either completely unrelated or loosely related groups without fixed responsibilities.

Therefore, every organization exists in an environment that results from the interaction of the formal organization and the various informal groups. A well-defined environment in relation to the organization is the consequence of the dominance of formal organization and the secondary position of the informal organizations. A well-defined formal organization is the effect of a sound philosophy and its effective communication and acceptance by all parts of the organization.

The importance of a sound philosophy lies basically in the fact that without it one cannot take a scientific approach to management. Although it is true that management is both an art and a science, the more the emphasis upon art,
the less will be the ability to coordinate activity among many managers. In the small organization, the manager, who most probably is also the owner, can possibly succeed without practicing management on a scientific basis. However, as the organization grows and the number of managers increases, it becomes difficult to communicate and coordinate without some scientific approach based upon a sound philosophy. Philosophy not only acts as a base for decision-making, but it should also be a frame of reference for the facilitation of communications. If management as a group is in accord as to its understanding of a sound philosophy, it will minimize its problems of communicating and coordinating activity. Without such a philosophy, the various components will tend to operate throughout the organization without effectively integrating one another's thought and action.

As previously mentioned, normative consensus is the basis upon which effective interaction is established. Without normative consensus or shared frames of reference, it is impossible to establish mutual understanding.

---

18 Art is based upon individual talent and is of value in management only if it is compatible to group needs and is coordinated to those needs.

19 Many current writings in mergers recognize the need to integrate objectives, but fall short in the recognition of the need to integrate entire philosophies.
Without mutual understanding there will be no coordination or cooperation. Therefore, a philosophy's primary value lies in the fact that it is the basis for consensus in understanding and interaction regarding fundamental issues. These issues include the business mission, principles, major policies, leadership, leadership climate, structure, and methods. When the philosophy is well communicated throughout the organization, these basic elements of effective performance are well established and mutually understood by all. With this in mind, it can be readily seen that, in a more specific sense, a philosophy has value as a basis for:

1. Consensus in interaction,
2. Coordination of thought and action,
3. Interpretation,
4. Decision-making,
5. Operative performance and performance evaluation,
6. Planning, organizing, and controlling the activities of the business, and
7. Investigating, facilitating, motivating, communicating, and integrating thought and action.

There is little question that management cannot be considered only an art or only a science. The organization
that has established and effectively applied a sound philosophy will find that it has approached greater scientific achievement in the area of management than an organization that does not have a carefully defined and well-adapted philosophy. In other words, the application of a sound philosophy will increase the probability of success and reduce the necessity of costly trial-and-error managerial techniques.

It is a relatively simple matter to define the term "philosophy". More difficult is the attempt to transmit the full complexity of the concept. Philosophy may be defined as "the study or science of the truths or principles underlying all knowledge and reality." Thus, a philosophy acts as a framework or system of thought which facilitates the decision-making process. It is a universal concept in that every person has a philosophy. We are not interested here in the universal phenomenon of philosophy as such, but would examine the factors, forces, and relationships found inherent in the business organization. A sound management philosophy pertains to a particular branch or to the subject

---

20 See research findings in Chapter V for support to this statement.

of organized activity for the accomplishment of common economic objectives. To qualify as a sound organizational philosophy, three criteria of purpose must be met. These are:

(1) to provide a basis for determining the relations between the cause and effect as they enter into the solution of certain problems within the field of some particular phenomenon, (2) to provide a scale of values, by supplying criteria of what is desirable or undesirable, proper or improper, sound or unsound, right or wrong, and in consequence (3) to provide a basis for effective thinking for the solution of the particular kinds of problems.22

When philosophies within an organization are at variance, fundamental issues that threaten the very existence of the organization are created. Only when the various members can establish a mutually acceptable rallying point can the company maintain an effective inertia.

We have, to this time, "scussed in general the value of a sound management philosophy. It would be well to examine in detail the pertinent components of such a philosophy. Every philosophy must begin with a mission. With this focal point in mind, the evolution of the other elements can begin. The evolution of a philosophy based upon the mission would include the establishment of principles,

22Ralph Currier Davis, "Frederick W. Taylor and the American Philosophy of Management," Advanced Management (December, 1959), pp. 4-7.
policies, procedures, organizational factors, organizational climate, and executive leadership. Implementation of this philosophy will have an effect upon organization climate, as well as level of morale and productivity of the group.

Organizational Model

A business system consists of the interaction of factors, both in a formal and informal manner. Figure 1 depicts a conceptual model of the important factors and their relationships in such a system. It should be noted that the system is derived from two major sources and influenced by and determined by these sources. The first is the formal philosophy which establishes the legal framework within which the system functions. A well-defined formal philosophy that is generally accepted will act as the dominant influence in the functioning of the system. If the formal philosophy is not well-defined and accepted, the informal groups, in varying degrees, will play dominant roles in the definition of the system's actual performance.

Formal Philosophy

The formal philosophy is the legal framework of the organizational system. Through the application of formal authority, it defines the factors, forces, and relationships
Figure 1 - Factors and Forces Affecting Organizational Systems

Organizational System

Formal Organization  Informal Organization

Statement of the Mission

Objectives
Influences
Criteria

Executive Leadership

Principles

Free-rein
Autocratic
Participative

Major Policy  Methods (POC)  Structure

Position
Status
Factors

Complete Organization (Organizational Climate)

Performance (Interaction)

Level of Results

Productivity  Economy and Effectiveness  Cohesiveness (Goal-directed behavior)  Morale
of the various system components. At the core of this formal philosophy is the statement of the organizational mission. This statement of mission should set forth the objectives of all groups involved in the system and the objectives of the system itself. It should also give recognition to the influences which will play a dominant role in the system. These influences may be internal or external to the system and will act as limiting factors upon the performance or achievement of the objectives. Also inherent in the statement of the mission must be the criteria by which successful achievement of the objectives can be measured. These will act as a basis for measuring results and determining the success with which the organizational mission has been accomplished. Based upon the statement of the mission, the organization will develop principles and leadership that are conducive to the achievement of the mission. The principles reflect ideals and standards of ethical conduct upon which performance is predicated. The leadership reflects the image dictated by the mission and the principles of the organization. Thus, from the situational standpoint, organizational leadership that is conducive to the accomplishment of the mission in the light of

23 The writer is indebted to R. C. Davis for his views which gave valuable insight into the concept of the organizational mission as stated herein.
the principles will tend to evolve. Often, leadership as a group may be defined in terms of varying personalities, such as autocratic, participative, or free-rein. In light of the established mission, principles and leadership, the organization will then evolve major policies, methods of performance, functions, and structure. Applying these to physical factors and human factors will activate the organization, as amended by informal groups, for the development of results commonly measured in terms of productivity, cohesiveness, and morale. The more effectively these three measures of performance are achieved, the greater will be the optimization of the achievement of the mission.

The Mission

Every organization that is formed has some central mission for its purpose of being. The mission is the assigned or assumed task of accomplishing a designated objective. The specification of a mission includes necessarily the specification of: (1) the objectives to be accomplished, (2) the conditions governing accomplishment of the objectives, and (3) criteria of successful objective accomplishment. Thus, no matter how informal the group, it

will be formed for the purpose of achieving some mission or missions. Once the group is perceived as having achieved one or more missions, it will tend to fall apart unless new missions are brought into being.

Objectives. An organization is defined as a mechanism or device established to facilitate the achievement of group and individual goals. At the core of all organizations must necessarily be the definition of the desired objectives of the organization and its members. There is little argument about the need for objectives, but even today there is turmoil over the objectives on which primary emphasis should be placed. 25

25In the discussion of evolutionary development of organizational objectives, one might well begin by reflecting briefly upon the contribution of Adam Smith in The Wealth of Nations, as this must assuredly have had an impact on writings for generations to come. In Smith's view customer satisfaction was measured predominantly by the quantity of product that he was willing to purchase in the market place at varying prices. The price of a product was determined by three factors: the price of labor, capital (including reasonable profit), and rent. Thus, the factors of production would regulate themselves in direct proportion to the degree to which they were able to achieve their objectives. Also, the potential customer would regulate his activity based on the degree to which he could achieve his objective. Interestingly, Smith also alluded to the objectives of society, assuming that they could be best achieved with a minimum of state intervention. The key to his entire concept was the effective functioning of a free-market competitive economy. /Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (New York: Random House, Inc., 1937), pp. 3-258/ The intent here is not to over-interpret the meaning of Adam Smith's words, but
merely to point out that even in Smith's day, although not specifically alluded to as objectives, there was the need to achieve certain values in order for any individual to be willing to be a member of the productive process. Retaining perspective, with the realization that the term "value" was interpreted in a much narrower sense in that day and time, the fact remains that it was considered. (For example, the employee of our time, in interpreting his wage objectives, seeks maximization, whereas, in Adam Smith's time, wages were more often considered from the standpoint of minimization; that is, they at least must cover subsistence level.)

The period from Adam Smith up to the emergence of scientific management at about the turn of the 20th Century is dotted with writers giving recognition to the various objectives of a business organization. Andrew Ure, in his work of 1835, recognized the need for harmony in the interests of operatives, masters, and the state. Andrew Ure, *The Philosophy of Manufactures* (London: Charles Knight, 1835). Pope Leo XIII, in his *Rerum Novarum* of 1891, gave recognition to the fact that service was an important objective. Father John Wynne, S.J., *The Great Encyclical Letters of Leo XIII* (New York: Benziger, 1903), pp. 208-245.

Frederick Taylor, in his book written in 1911, indicated that "The principle object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee." Frederick Winslow Taylor, *The Principles of Scientific Management* (New York: Harper & Brothers, 1911), p. 9.

After 1920, the concept of organization objectives began to broaden and greater emphasis was given to the fact that the objectives of various groups were largely interrelated and could be the source of extensive conflict. Mooney and Reiley, with their concept of profit through service, and their recognition of the need for alleviation of human want and misery, did much toward placing increasing emphasis upon service being the primary objective. Since this time, most management writers have accepted this view and expanded the understanding of it. J. A. Couborough, *Industrial and General Administration* (Geneva: International Management Institute, 1925)—Translation of Henri Fayol, *Administration Industrielle et Generale*, p. 46.

Interestingly, Henri Fayol recognized this early in this century. He contended that the responsible administrator cannot divorce himself from the human factor, because to regard organizations as pure mechanisms was to open the
The objective of a business organization and its members may be defined as any economic value or values that are needed or desired by members of the organization or those related to the organization. An economic value may be defined as any satisfaction for which a direct or indirect member of the organization is willing to exchange other values.  

The business environment is often regarded as a condition under which conflict is fostered and nurtured. It is argued that the individual business organization exists in a climate in which the ownership has as its primary purpose the maximization of equity profits; the management has as its primary purpose the achievement of prestige, power, and maximum remuneration; and the employee has as his primary purpose the maximization of wages, hours, working conditions and security. It is curious to the writer that there appears to be little room in this definition for consideration of the objectives of the organization itself. It
door to every kind of error. He said: "If we could eliminate the human factor, it would be easy enough to build up an organization; anyone could do it if they had some idea of current practice and had the necessary capital. But we cannot build up an effective organization simply by dividing men into groups and giving them functions; we must know how to adapt the organization to the requirements of the case, and how to find the necessary men and put each one in the place where he can be of most service; we need, in fact, many substantial qualities."

would be difficult, if not impossible, for each of these groups to attain its goals if the goals of the organization were not first achieved. Discord between these three groups as a result of the interconflict of each group's goals is a common occurrence.

In most instances, the successful organization is one in which these three groups have come to place their individual goals in a secondary position to the primary organizational requirements. By doing this, they have discovered that the effective achievement of the organizational objective has led to the more effective achievement of the individual goals. The responses of each of the groups have been conditioned to the needs of the organization, resulting in compatibility rather than conflict in the interaction between groups.

Of the three groups discussed above, in most industrial organizations, management enjoys a position of prominence in its capacity to wield influence over the other two groups. The impetus to reduce the tensions and conflicts that develop between the groups should come from management. Specifically, to the employee group management should apply

27James F. Lincoln, *Lincoln's Incentive System* (New York: McGraw-Hill Book Company, Inc., 1945). This is an example of a company that has had phenomenal success with this type of approach.
maximum effort in minimizing destructive tension and conflict within the industrial climate. To do this, management must have a thorough understanding of the motives, attitudes, and frustrations which affect employee performance. It must take steps to minimize those that are in conflict with the goals of the organization. If

28 A certain amount of tension and conflict can be of value. Only when it becomes a negative, rather than a positive force does it become detrimental to the organization.

29 Albert H. Rubenstein and Chadwick J. Haberstroh, Some Theories of Organization. Douglas M. McGregor, "The Human Side of Enterprise" (Homewood Illinois: Richard D. Irwin, Inc., and The Dorsey Press, Inc., 1960), pp. 180-181. Often this is a highly complex task because "Man is a wanting animal—as soon as one of his needs is satisfied, another appears in its place." (p. 170). The authors cite five sets of needs in order of their importance:

1. Physiological needs — ("a satisfied need is not a motivator of behavior"). "When the physiological needs are reasonably satisfied, needs at the next higher level begin to dominate man's behavior—to motivate him."

2. Safety needs — protection against danger, threat, deprivation, need for the "fairest possible break".

"Arbitrary management actions, behavior which arouses uncertainty with respect to continued employment or which reflects favoritism or discrimination, unpredictable administration of policy—these can be powerful motivators of the safety needs in the employment relationship at every level."

3. Social needs — "When man's physiological needs are satisfied and he is no longer fearful about his physical welfare, his social needs become important motivators of his behavior—for belonging, for association, for acceptance by his fellows, for giving and receiving friendship and
management is to be successful in this endeavor, it should be aware of the problem by having a thorough understanding of its nature. It should also be knowledgeable in the use of available scientific tools which can be applied to conflict reduction.

Figure 2 depicts the members directly or indirectly related to the business organization who are interested in achieving certain objectives. It is interesting to note that the objectives of one group may overlap and conflict with the objectives of another group. For example, the employee's desire to maximize wages, hours, and working conditions could well be in direct conflict with the stockholder's desire for a maximum profit or the customer's desire for a reasonable price for merchandise.

Management, fearing group hostility to its own objectives, often goes to considerable lengths to control and direct human efforts in ways that are inimical to natural groupiness of human feelings. When man's social needs—and perhaps his safety needs, too—are thus thwarted, he behaves in ways which tend to defeat organizational objectives. He becomes resistant, antagonistic, uncooperative; but his behavior is a consequence, not a cause."

4. Ego needs—two kinds: (1) self-esteem, self-confidence, independence, achievement, competence, knowledge; (2) reputation—status, recognition, appreciation, respect. These needs are rarely completely satisfied.

5. Self-fulfillment needs—need for realizing one's own potential continued self-development, being creative. Only a few people recognize this need in themselves.
FIGURE 2

Objectives of the Direct (Inside Pentagon) and Indirect (Outside Pentagon) Members of a Business Organization

Customers - maximization of satisfaction from products and services

Business Organization
(Objectives - achieve member satisfaction with economy and effectiveness)

Stockholders (profit, security, etc.)

Executives (salary, prestige, etc.)

Employees (wages, hours, working conditions)

Financial Community - stability of loans, equitable returns, etc.

Vendors - deliver the values desired by the customer.

Competitors - ethical and rational conduct.

Society - the perpetuation of the free-enterprise system through the right of private property and the furtherance of the competitive process.
Borrowing an analogy from the area of finance, a useful comparison can be made between the prospective investor and the prospective member of a group. Each must make the decision as to whether or not there is justification in applying himself to a given endeavor. Each will turn to the examination of a profit and loss statement as an aid in achieving this decision. Each should first ask the question, "Does the potential reward justify the investment?" If the valuation is affirmative, a second question will follow, "Even though the potential reward is satisfactory, are there alternatives that would lead to even greater satisfaction?" A negative response to this question would then probably result in both parties making their investments. That is, any person considering entering into an enduring relationship will do so only after a rather extensive analysis of the potential costs and rewards involved. Thibaut and Kelley refer to this in their discussion of the concepts of comparison level (CL) and comparison level of alternatives (CL alt.). CL is defined as "the standard against which the member evaluates the 'attractiveness' of the relationship or

30We are speaking here of a voluntary relationship, realizing that a nonvoluntary relationship would result outside of the actor's choice control; although in our opinion that actor might well undergo a rationalization that would ultimately result in his achieving much the same cost-reward analogy.
how satisfactory it is" (attraction relevance). CL alt. is defined as "the standard the member uses in deciding whether to remain in or to leave the relationship" (dependency relevance). The first is the measurement of rewards (objective satisfaction) in relation to what the actor feels he deserves. The second is the measurement of rewards in relation to available opportunities.

Every person entering a relationship will be subject to both costs and rewards. For the relationship to endure, the rewards, at least in the long run, must reasonably exceed costs for each individual. This cost-reward relationship can be affected by factors external (exogenous) and internal (endogenous) to the group. Among exogenous factors having the most influence on a relationship are propinquity and what might be called "having something in common."

Propinquity, or the problem of physical distance in forming a relationship is a cost which must be overcome for the relationship to endure. The more difficult it is for members of a group to gather, the higher will be the cost and, thus, the higher must be the commensurate reward to justify the interaction. The factor relating to having something in common is not quite so clear. It is difficult to formulate

---

any hypothesis that will stand up, because exceptions can be found. But in general, one would find grouped under this category such things as mutual liking and feeling of reciprocation, class and status effects, and complementary personality similarities or differences.  

Among the endogenous factors considered are possible conflicts between members in reward-cost relationships. In this regard, Thibaut and Kelley bring in the phenomenon referred to as response interference,

By which is meant that the performance of one response (or even the existence of a tendency to make that response) may be incompatible with the performance of another. Response interference is important in the analysis of group interaction, because for each individual the behavior of the other constitutes powerful instigation to responses. These may be incompatible with other responses which, by virtue of other instigations (events in the social or physical environment or internal events such as need or driving stimuli), the individual happens to be performing at that moment.

Thus, group relationship can demand high costs manifesting themselves in the form of conflict and anxiety. These costs must be either overcome or the rewards must be high enough to compensate for them if the relationship is to continue. Thibaut and Kelley suggest two means of 

32Ibid.
33Ibid., pp. 51-52.
overcoming this response interference: (1) by synchronizing behavior so that only compatible responses are simultaneously performed, and (2) by eliminating persistently interfering behaviors from the relationship.34

Once the individual can no longer visualize a goal in terms of the relationship, the reward will be gone and the individual will attempt to break away. Thus, it follows that the better the relationship between the individual goals and the group goals, the greater should be the cohesiveness of the group.

Many authorities consider customer satisfaction to be the primary objective of the business organization.35 This

---

34Ibid.


Some segments of the business community and some management writers continue to persist in the theory that the primary objective of business is profit. Such a view is not fundamentally sound, as it lays excessive emphasis on only one membership group in the organization and is in conflict with the objectives of the other members, most specific of which is the primary service objective of the customer. Examples of these writers are Ernest Dale, The Great Organizers (New York: McGraw-Hill Book Co., Inc., 1960). As an example, this writer, in a discussion of business objectives, tends to emphasize the primacy of profit and to ignore completely the service objective. Also, Alvin Brown, "Financial Approach to Industrial Operations," (Society for the Advancement of Management Pamphlet, 1957), pp. 6-10; and Ordway Tead, The Art of Administration (New York: McGraw-Hill Book Co., Inc., 1951), to name only a few.
is especially true of writers in the management field and may be justified on a number of grounds:

(1) Business derives its right to operate from organized society through the right of private property. Sincere belief in the primacy of the service objective is a condition of the continuation of private enterprises based on the concept of private property.

(2) Without the customer's dollar, no other group could hope to achieve its objective. Therefore, it logically follows that this should be the point of primary emphasis.

(3) Various groups are able to form an intelligent compromise on the personal objectives of each by establishing the customer service objective as a primary consideration. This allows emphasis to be placed at a point where there is a minimum of conflict between the groups.

(4) The emphasis upon the service objective establishes a firm foundation upon which to build the plans and policies of the company. In other words, it is easier
to interpret the service objective in terms of effective action. Some of the other objectives, which are not as tangible or universal in their interpretation, cannot be easily translated into action.

There is little question that various membership groups within the organization are at odds when it comes to the values that each desires to achieve. But when the membership realizes that the success of each is interdependent upon the other, they are normally able to find some mutually acceptable criteria for performance. Such is the value of the service objective. This service objective acts as the basis for integration of interests. It is the indirect means for effectively achieving the goals of each of the subgroups within the organization. It is around the focal point of the primary service objective that the philosophy of the various subgroups can be integrated for optimizing performance.

It has long been a misconception among top-level executive leadership that their primary responsibility rests in the maximization of corporate profits. Such a philosophy can be found well developed in the literature from about the turn of the century up to the current day.\textsuperscript{35} For example,

\textsuperscript{35}See footnote 35.
in a recent edition of a Houston newspaper, a top-ranking executive made such a statement under a caption entitled, "Some Businessmen Embarrassed by Profit Motive." His central theme was, "Maximum profits are the first goal of management, but some businessmen apparently feel some embarrassment about the profit motive..." Such a statement would indicate a consideration to the objectives of the stockholder, but would seem to exclude the values desired by other members of the organizational group.

In reality, a business organization is a complex system of interrelated parts. One way of considering these parts is that of subgroups, each with its own unique set of objectives. The subgroups join with other subgroups in the organization only because they find that in this manner they are better able to achieve their individual objectives. Management, in many respects, must be considered the advocate of all of these groups, as each group is a necessary component in effective over-all organizational achievement. For management to advocate the maximization of profit as the primary objective is to overlook and neglect other necessary values desired by subgroups. In addition, profit maximization as a primary objective will create direct conflict between two or more of the other subgroups in the system.

---

37 Houston Chronicle, November 11, 1964.
Possibly, before going any further, it would be well to examine the primary values desired by each of the organizational subgroups. Of these organizational subgroups, some may be considered external to the firm and others internal, and they will be discussed in that order.

Among the external subgroups that make up a part of the organizational system are society, customers, vendors, financial institutions, and competitors (see Figure 2). In our economic system, business derives its right to operate from organized society through the right of private property. It is the desired objective of society as a subgroup in the organization that the free-enterprise system be perpetuated through the right of private property and the furtherance of the competitive process. As such, society is opposed to profit maximization if it leads to a conflict with society's objectives. There are many examples to substantiate this view, not least among which are: (1) Sherman Antitrust Law, the general purpose of which is to prevent conspiracies in restraint of trade and monopolistic tendencies; (2) the Robinson-Patman Act for protection against price fixing and unfair competition; and (3) the Federal Trade Commission Act, which established a body to police industry in order to insure the furtherance of the competitive process. Basically, it can be said that in
furthering its desired objectives, society establishes constraints and minimum standards of ethical conduct upon the business organization. Historically, business has shown itself to be adept in clashing with the desired objectives of society when it has been left unchecked in pursuit of the major objective of maximizing profit. Analysis of the growth and development of the railroad industry readily brings out this point.

Customers, as a subgroup, are interested primarily in the achievement of need satisfaction in the form of products and services. Their interest is in obtaining maximum utility in purchases from the organization. To satisfy a customer need, one must furnish possession of the product or service in the desired form, at the proper place, and at the proper time. An organization may, in the short run, be able to maximize profits through the sale of its product or service to a particular customer because of economic conditions. However, if an effective job is not being done, the customer will continuously seek and ultimately achieve some form of substitution that is more effective in satisfying his need.

38 Eugene Carroll McCann, "Appropriateness of U.S. Management Philosophy in a Latin American Setting" (Order 63-6222), (Louisiana State University: University Microfilms, Inc., September, 1963). One's philosophy of management is influenced by the attitudes and values of the culture of his society.
The vendor, as one of the organizational subgroups, is interested in delivering to the organization values desired by it as a customer of the vendor. The financial community is interested in the stability of the business organization, as well as its ability to serve the organization as one of its customers. Competition is interested in ethical and rational conduct on the part of the business organization. In addition, competition is continuously striving to offer the values desired by its customers, and will take advantage of all opportunities afforded it by inadequate performance within the organization.

The subgroups internal to the organization include stockholders, executives, and operatives. Stockholders as a group are interested in the protection and growth of their assets, and an equitable return on their investment. Ideally, if it could be assured, there is little doubt that the stockholders would have as their primary objective profit maximization. This can be seen in the stock market practice of valuing securities in relation to their earning power. Executives may be influenced by any one of a number of objectives, not the least of which includes salary, security, prestige, power, etc. Operative employees have as their major objective the attainment of adequate wages, hours, and working conditions.  

39Actually, the issues can be far more complex than this, as illustrated in footnote 29.
To this point, the discussion has involved a consideration of the personal objectives of each of the subgroups within the business organization and the service objectives of the business organization itself. Each group has become a part of the organization in order to achieve individual objectives. However, each group must subordinate its individual objectives to those of the organization if an effective cohesive system in the accomplishment of the organizational mission is to be achieved.

**Conditions Governing Accomplishment.** Once objectives are determined, their accomplishment will be subject to certain conditions, both external and internal to the business organization. For example, conditions that would affect the fulfillment of the business organization's mission would include such external factors as the laws of society, general economic conditions in the market area, the labor market available, etc. Internal conditions governing the achievement of the objectives would include such factors as quality of personnel, technological capacity, financial resources available, strength and mission of the informal organization, etc. These conditions then become either limiting factors that must be considered in achieving the mission or difficulties that must be overcome in the achievement of the mission.
Criteria of Success. To determine whether a mission has been successfully achieved, it is necessary that some standard be established against which performance can be measured in order to determine results. Without such criteria it would be impossible to be sure if the desired values inherent in the mission have been achieved. In the business organization this requires the establishment of standards against which performance can be measured in relation to the primary objective of the business enterprise, the secondary objectives, and the collateral objectives. The accomplishment of the mission requires a sound philosophy of management. On this basis effective planning, organizing, and controlling of action will produce results that are compatible with the established criteria of success. It is especially important in a new merger to retain close control over the evaluation of mission achievement. This is especially true since some change in the mission for at least some of the members of the newly-formed organization is probable.

Principles. Once the mission of an organization has been defined and is understood, it can be used as the basis for establishing a fundamental set of sound principles. These principles will be the foundation for the ideals, ethics, and method of approach to business performance.
These general truths will form the framework for the establishment of corporate policy, attitude, and approach of the organization's executive leadership. They then will become the business commandments, based upon the objectives, and will act as a guide and inspiration in the over-all discharge of corporate responsibility. As broad guidelines to corporate performance, their intent is to mirror the desired corporate image as it relates to each of the organizational membership groups.

Principles act as a basis for the determination of organizational performance. In attempting to combine two organizations, it would be impossible to build compatibility where conflicting principles are involved. It is absolutely essential that the principles of each organization be examined in order to assure that adjustments can be made in any points of conflict. If this is not done, the differences in the principles of various members of the organization will be reflected in varying interpretations of corporate policy and methods applied by the executive leadership. Such differences of interpretation can only create a chaotic situation highly conducive to a rise in conflict among the organization's members.

The task of determining and comparing principles in many cases may not be as easy as it seems at first. Often, management groups evolve a set of principles in a more or
less informal manner without having given formal recognition to their existence. Under these conditions it will be necessary for a well-trained individual to perform an examination of organization documents and interview executives in order to ascertain the actual principles that exist and that are applied.

Executive Leadership. There is no question that executive leadership is one of the dominant influences in the organization. By virtue of his position in the hierarchy, his formal responsibilities, the power of his position, and his organization and community status, the executive generally plays a dominant role in the group with little or no opposition. When conflicts do arise among executive leadership, effects are usually felt throughout the entire organization. Therefore, it is absolutely essential that the top executives of an organization adhere to the same philosophy and support and complement each other in seeking to achieve the organizational goals. This is especially true because the influence of the leader tends to

40 Robert H. Guest, Organizational Change: The Effect of Successful Leadership (Homewood Illinois: The Dorsey Press, Inc., and Richard D. Irwin, Inc., 1962), p. 109. "There is substantial agreement in the literature to the effect that the leader of a group must have a realistic understanding of the needs of his followers in order to change their behavior. He must be in tune with the group's needs. Learning about these needs is clearly one of the early phases in successful organizational change under new leadership."
carry down to the lowest levels of the organization, and the organization will generally be a direct reflection of his attitudes and methods of performance. Cohesiveness at the top is a necessary prerequisite to a cohesive organization in totality. Conflict at the top is a general assurance that there will be conflict throughout the organization.

An analysis should be made of the executive leadership of both organizations in order to determine the extent to which their attitudes and organizational personalities are compatible. For example, if one organization is dominated by autocratic-type leadership, while the other organization includes leadership dominantly participative in nature, a critical situation can develop in attempting to blend the two together. Obviously, if personnel are subjected to both approaches, there will be a great deal of confusion and uncertainty inherent in the organization.

41Louis A. Allen, Management and Organization (New York: McGraw-Hill Book Co., Inc., 1958), p. 128. "All activities which report to a manager must be balanced, timed, and unified so that they take place as an integrated whole. The responsibility and authority for this coordination must be reserved because only the accountable manager is in a position to know, assess, and reconcile all the interests involved. As a general rule, the responsibility and authority for coordinating the interests of two functions must rest at a level higher than either of the interests involved."

Simply stated, the new leadership group must learn to function as a well-coordinated team, and therefore, must adapt to compatible behavior. 42 Probably, the easiest task in examining executive philosophy will be the recognition of differences in leadership. Far more complex will be the problems involved in creating the situation of leadership adaptability. Obviously, the issues associated with this problem can, upon occasion, become extremely complex. Their solution will require a great deal of time and effort. Of utmost importance is early recognition of these differences, the establishment of a climate conducive to cooperation among the leadership group, and the planning of an effective adaptability program. 43 Recognition of the adaptability

42 Samuel J. Mantel, Jr., Cases in Managerial Decisions (New Jersey: Prentice Hall, Inc., 1964), p. 164. "There is no area of business operations or management that an executive can avoid investigating when a merger is at issue. Yet, in spite of the fact that 'everything is relevant', executives typically develop a peculiar type of economic tunnelvision when faced with a merger decision. Too often the major, if not sole, consideration becomes, 'What will this do to our tax position?' ."

43 David P. Linowes, "Neglected Areas in Acquisition Evaluations," Management Services (November/December, 1964), p. 13. "Not only is early planning of great value in getting the merged enterprise off to a good start but it is also an indispensable part of the analysis of the desirability of the acquisition. After all, the real value of any acquired company lies not in itself but in its potential as a part of the acquiring company. Unfortunately, there are so many facets to examine and weigh in a merger transaction and so few people available to do this work that in the great majority of cases practically all planning is on the tactical level. The immensely important strategical planning effort is postponed to a later date. That later
need by all affected management and a commitment to cooperation and achievement of this adaptability should come at a very early stage, preferably prior to the consummation of the formal merger. This is necessary so that management can be reasonably assured that these problems are not insurmountable in nature. This adaptability process generally includes more than the development of a correlation in attitudes. It also involves a recognition and acceptance on the part of management of the need for some changes in position and status. It is not unusual when two firms merge to find individuals involved in overlapping and duplication of functions. Such situations must be met head-on and decisive action taken as rapidly as possible in order to minimize the difficulties that can be created by an extensive period of uncertainty. No effective integration can be achieved in any level of the organization until it has been achieved at the executive-leadership level. Lingering difficulties at this level will be reflected throughout the organization. If they persist, they can create serious breaches not easily corrected. Such a situation is often the cause of lingering merger difficulties and the loss of valuable organizational talent.\(^44\)

\(^{44}\)See findings in Chapter V.
Policy. Policies are established from corporate principles in light of the mission. Their value lies in the fact that they allow delegation while retaining the desired amount of uniformity and coordination. Effective application of policies insures internal consistency in action to the extent desirable under the given conditions. As such, policies tend to add stability to organizational performance. The extent of policy formulation within any given organization will depend largely upon the need for control of the organizational membership in relation to the mission and principles of the organization.

The purpose of policy is to assure uniformity of action throughout the organization consistent with the desires of the executive leadership. As such, policy is a reflection of the corporate principles and is compatible to the requirements of the organizational mission. It necessarily follows, therefore, that in a merger situation when changes are anticipated in statement of the mission, principles, or executive leadership, policies must also be adjusted to reflect these changes. Such a change in policy involves much more than the mere adaptation of the policy. It necessarily includes a communication and education process so that the revised policy will be understood in the same way by all affected personnel. This often requires a re-education process for some of the personnel so that the
intent of the new policy will be clearly understood. This would involve a change in frames of reference in order to gain the new interpretation desired. Such change must be carefully planned so that the intent and interpretation are not misconstrued by those affected. A program of policy adaptation can be broken down into several distinct phases for ease of achievement and assurance of complete development. These phases are:

1. **Policy formulation** - selection of principles and recognition of action to govern particular types of activity,
2. **Policy promulgation** - distributing an understanding of the policy down to the levels of the organization where it is to be used,
3. **Policy education** - developing and understanding of policy meaning on the part of all affected members,
4. **Policy acceptance** - assurance that the policy is accepted by the membership, and
5. **Policy control** - assurance that the policy is being interpreted and applied as required and that all necessary changes are being made as rapidly as possible.

---

The first stage should, if at all possible, be achieved prior to the merger. The following stages should be put into force as rapidly as possible immediately after the consummation of the merger. This will aid in reducing the time and potential ill effects of the period of uncertainty.

Structure

An important aspect of every business organization is the structure of that organization. It is conceivable that the structures of two companies considering merging will differ greatly. Integration, as a result, will be a very difficult task. When examining structure, it is necessary to define adequately important positions in terms of authority and functions. In this way, the over-all pattern of relationships can be visualized. The separate organizations can then be examined for comparison between title and actual authority of such positions. Once this has been done, the positions of two separate organizations can

46H. A. Marquand, The Dynamics of Industrial Combination (London: Longmans, Green & Co., 1931), p. 146. "Integration, in particular, is a method of industrial combination whose justification depends upon considerations of an administrative nature. The interest of an integrated concern lies in its structure. It is a system of organization. Obviously, therefore, the chief limit upon its extent, upon the range of its activities, is human. The costliness of the scheme of supervision which it inaugurates, the effectiveness of the centralisation of authority and devolution of responsibility for which it arranges, and the ability of its executive staff are the key to its success."
be effectively compared for recognition of similarities and differences. Comparison will also establish what each company has done in centralization and decentralization of authority, span of control, use of staff, personnel, and monetary compensation for various positions in each organization.

Structure may be defined as the hierarchy of relationships between functions, facilities, and physical factors of the environment. Conflicts in structure should be recognized at an early date so that potential problems can be anticipated and corrective action taken. Typical of the structural problems that can occur in a merger are: duplication in position, conflicts in status, responsibility-compensation problems, and differences of structural design. Duplication in position problems should be recognized rapidly and immediate steps taken to facilitate corrective action. Employees will sense the existence of such problems, and this will add further fuel to the fire of uncertainty. Closely related to this are the problems of status differentiation and compensation differences. These issues must be faced and corrected before any hope for the development of a cohesive group can be realized. Organizations whose structural differences include variances in the combinations of line and staff applications can also run into difficulties of understanding and acceptance. If one
organization is expected to change to a great extent, steps should be taken to communicate such changes to the affected personnel as rapidly as is practical. Such communication should make an effective attempt at justifying these changes to the personnel so that the resistance may be minimized. Ideally, public commitment on the part of the personnel to the new situation will lead to the maximum support of the change.47

The Informal Organization

The informal organization may, in reality, be more than one organization within the business system.48 In effect, it may be a number of independent groups, each with its own established philosophy. This philosophy, as with the formal philosophy, may be well-defined or very vague, depending on the cohesiveness of the particular group.49


48Robert A. Sutermeister, People and Productivity (New York: McGraw-Hill Book Co., Inc., 1963), p. 31. "An individual employee can belong to several informal groups. One is a group which has a common supervisor; another is a group engaged in a common task or function; another is a friendship clique, composed of employees who have a liking for each other; another is an interest group of employees who share a common economic interest and seek to gain some objective relating to the larger organization."

49Ibid., p. 32. "A cohesive group is one whose members will stick closely to group norms, whatever they are. A
However vague it may be, each of these informal groups will have included in its philosophy a number of factors, including the organization's mission, leadership, and structure. The informal organization as such does not constitute a threat to the formal organization, unless its philosophy becomes directly opposed to that of the formal organization. When this happens, if the system is to return to a state of equilibrium, it will be necessary for the formal philosophy to change, the informal philosophy to change, or some combination of both. It should be remembered that when the informal organization is dominant over the formal organization, the members will tend to subordinate formal organizational values to those of the informal cohesive group is likely to exhibit greater teamwork, gain greater social satisfaction from working together, have high morale, less turnover and absenteeism than a group which lacks cohesion. A cohesive work group has great potential, then, for motivating employees to better performance or to poorer performance, depending upon the group's goals."

50 Eliot D. Chapple and Carleton S. Coon, "The Equilibrium of Groups," Small Groups - Studies in Social Interaction, ed. A. Paul Hare, Edgar P. Borgatta, and Robert F. Bales (New York: Alfred A. Knopf, 1962), p. 54. A state of equilibrium may be defined as follows: if a small force is impressed upon a system, a change or adjustment takes place within the system, and once this force is removed, the system returns to approximately its previous state. States of equilibrium are characteristic not only of individuals, but also of groups of individuals. In other words, the individuals of whom a group is composed adjust their interaction rates to each other; as they separately attain equilibrium, the group attains it likewise. Therefore, a disturbance which upsets the equilibrium of one member will affect the others also.
When this occurs, the formal organization will not function as effectively as it should. At this time management will have to take steps to correct the situation that has caused the system to go out of balance. This must be done with extreme caution and management must realize that the desired result may not be achieved. Rather, the informal organization may go underground, so to speak, and be further reinforced in its opposition to the formal organization. When this occurs the results can range from less than optimum performance to deliberate sabotage on the part of the members of the informal group.

Informal groups are not necessarily contradictory to the formal organization. Often they act as a facility for the release of anxieties created by the organization and, as such, are complementary in nature. However, in situations where the level of uncertainty is relatively high, informal groups may act in a manner that is conflicting and detrimental to the functioning of the formal organization. As depicted in Figure 1, the informal group also has a sense of mission similar to that of the formal group, except for the fact that it is outside of the legally designated organization framework. This mission may be purely social in

---

51 R. C. Davis, *Fundamentals of Top Management*, on page 545 explains this as the principle of the "primacy of the service objective."
nature or it may have a defensive purpose against the formal organization. Similar to the formal organization, the informal group, based upon its mission, will also develop principles of conduct and informal leadership. These principles will be based on behavior sanctioned by the group and will be a determinate of the nature of the leadership. The informal group will also develop methods and structure for the performance of its mission.

Two schools of thought have developed as to how the informal organization should be viewed. One group contends that it should be allowed to exist on a live-and-let-live basis, while the other contends that the formal organization should attempt to control it. A reasonable view is taken by Keith Davis. He says, "The formal organization needs to be predominant in order to maintain continuity toward the objectives, but that does not preclude a strong informal

52Ralph M. Stogdill, taken from class notes, Business Organization 799G, The Ohio State University, Spring, 1963. It is Professor Stogdill's contention that management should recognize that the informal organization exists, but not interfere with it so long as it is not in direct conflict with the objectives of the organization. It is his thesis that the informal organization acts as a release for the employees and any attempt to control it on the part of the formal organization would only destroy its value. It also seems logical that if the informal organization is controlled by management it would, in effect, become part of the formal organization and a new informal organization on a more secret basis would develop. For the opposite view, see John T. Doutt, "Management Must Manage the Informal Groups, Too," Advanced Management, May, 1959, pp. 26-27.
system, also. He contends that management should be aware of the problems that can develop through the informal organization, so that it may anticipate and take corrective action. Among these problems as viewed by Keith Davis are:

(1) A tendency toward resistance to change
(2) Role conflict (that is, a conflict between formal and informal interpretation of roles)
(3) Rumor
(4) Overconformity
(5) Tendency to establish standards and norms, and develop cliques.

Management should not attempt to control the informal organization. However, in the area of possible conflicts, management should attempt to do all it can through effective integration of interests to prevent or overcome the damage that could occur. This is best done by the application of effective techniques by the formal organization, such as the principle of participation, effective communication, etc.

Organizational Climate. Organizational climate may be defined as, "The intellectual atmosphere based upon fundamental concepts and attitudes which pervades the

---

53 Keith Davis, op. cit., p. 256.
organization." It includes consideration to and is affected by a number of groups both internal and external to the organization. Among the internal factors are the effect of the leadership group upon the climate, the worker culture, and the structural factors. External factors include the government, the customer, the local environment, families and friends, and the union. Each of these factors will bring unique experience to the organization, and the result of the interaction tends to create an over-all organizational climate.

When two companies merge, the environmental balance in each of the predecessor organizations is disrupted. The ultimate result is the creation of the new environment for one of the organizations or both, depending on relative size of each in the merger. It is the transition period from the two previous environments to the new one that is the cause of a great deal of complication in merger situations. In the short run, at least, the merger tends to result in immediate changes in the formal organization but not necessarily in the informal organizations. As a matter of fact, the formal organization changes or anticipation of changes may act as a reinforcing agent as to the informal groups.

---

54 Henry L. Tosi, "Determinants of Organizational Climate," (a study done in partial fulfillment of the requirements of Business Organization 234, The Ohio State University, April 16, 1963) p. v.
from one or either of the two predecessor companies. That is, individuals subjected to a high degree of uncertainty in the formal organization may, as a defense mechanism, associate themselves more closely with the informal organization. If this occurs, it is possible and even probable that various factions may develop, warring openly or in an underground fashion with other factions in the organization. The more uncertainty inherent in the situation, the greater these potentially disruptive results.

For this reason it is most important for administrative management to make decisions as rapidly as possible regarding the finality of the formal organization, so that uncertainty may be overcome in a minimum time period.  

55 Warren G. Bennis, Kenneth D. Benne, and Robert Chin, The Planning of Change (New York: Holt, Rinehart, and Winston, 1961). (Reading by James D. Thompson), p. 454. "Organizations and their environments are independent and actions by elements of the environment can create dilemmas for the organization. Whether dilemmas are handled by 'minimax' methods, hunch, or other means, dissension often occurs among members who feel handicapped in their spheres of operation, and conflict between winning and losing factions may result. Debate over dilemma decisions may be as heated among those lacking power to make such choices as among the decision makers, and the debates may continue long after a commitment is made."

56 Robert H. Guest, op. cit., p. 115. "The length of time required for an organization to improve its performance results is a function of:

(a) the size of the organization in terms of the number of individuals,

(b) the number of levels in the hierarchy,

(c) the number of specialized service, reporting,
Actually, prior to the period of the merger, the two companies should be examined for points of similarity and difference in basic philosophy. After the merger immediate steps should be taken to go into extensive depth regarding the detailed aspects of each of the formal organizations. In other words, except by complete accident, never will two organizations exactly alike in character be brought together in a merger. Therefore, every attempt should be made to give immediate recognition to differences in order to minimize the potential point of conflict in the new organization. The problem here is to determine what the new organization should be, as a starting point for the establishment of the plans and programs that will be carried out in an attempt to achieve the new organization. In formally establishing a program for the integration of interests, many potential conflicts can be foreseen and steps taken for correction. When the new formal organization is understood and effectively communicated so that all members understand the formal role aspects of their positions and their relationships to other positions in the organization, the less dominant will be the factor of uncertainty as a 

and control groups,
(d) the complexity of technical operations,
(e) the degree of intensity of personal security and of interpersonal hostility at the outset of the change process."
potential conflict creator in the organization. By the same token, the less will be the members' need to go to the informal organization as a defense against uncertainty.

It is not enough, however, merely to define the formal relationships in the organization. Steps should be taken to tear down barriers that may be established by the informal groups from the predecessor companies. This can be accomplished by establishing a climate conducive to intergroup interaction. Such a climate can be achieved in a number of ways: (1) establishment within the formal organization of programs for joint participation by the members of both firms in the reorganization, and (2) establishment of some means for social (informal) contact between members of the two organizations.

A cohesive group is one in which member behavior is determined by shared understanding of one's own roles and the roles of others, and whose members are motivated to take their roles as commonly understood. The more cohesive a

---

57 Allen R. Janger, "Announcing an Organization Change," Management Record (National Industrial Conference Board, October, 1962), p. 8. "Analysis shows that the information which companies customarily distribute internally to announce organization change are answers—in more or less detailed form—to four questions: (1) what is being changed? (2) who are the key individuals involved? (3) why is the change being made? (4) what is the direction of future changes?"

group, the more effectively it normally influences the behavior of its members. The measure of any group's cohesiveness is its power to influence its membership. A merger creates a climate in which individuals are brought together into new group formations from previously separate environments. In such a situation, except purely by chance, there cannot be shared understanding of each other's roles. Such understanding cannot be achieved until normative consensus has developed among the interacting members.

To gain normative consensus among the membership, it will be necessary to establish an effective network whereby the communication process will be facilitated. This will require a program of indoctrination and constructive interaction among the membership. Once the new organizational philosophy has been established, it must be effectively communicated to all members of the organization. The detail of the communication and the method used will depend greatly upon the individual's position in the organization and the degree to which he must apply this philosophy in carrying out his functions. The first step of such a program would be to bring together the top executive leadership of the organization for a thorough discussion and analysis of the organization philosophy. These executives, in turn, should be required to meet with their individual subordinate levels of management, and they, in turn, with their subordinates
until all levels are familiar with the new philosophy.\textsuperscript{59} Coupled with this should be the imparting to all membership of an understanding of the adjusted organization structure and the part they play in that structure. If this is not done, organization membership will begin to establish its own concepts of the structure. As a general rule these will be in conflict with the desired results of management. Each member should be aware of his particular functions and the authority he has to achieve these functions. He should understand the authority of others closely related to him in performance. Finally, the organization should allow for some form of social interaction by the membership in order to facilitate the get-acquainted stage that will occur immediately after the merger.

\textbf{Summary}

In subjecting the business organization to an analysis, the following conclusions may be drawn:\textsuperscript{60}

(1) The basic element of the organization is the individual functioning in a position;

(2) Individuals join to form subgroups within the organization. The subgroups are

\textsuperscript{59}Louis A. Allen, \textit{loc. cit.}, (footnote 31).

\textsuperscript{60}This is the writer's own interpretation.
formed on the basis of propinquity, mutual functional interests, authoritative relationship, coordinative pressures, and social action, to name a few;

(3) Members normally belong to more than one subgroup (i.e., formal and informal groups) and interact with each other within each group;

(4) The members of one subgroup will also interact with members of other subgroups;

(5) Members of subgroups are bound together by common objectives which may be either business or personal or some combination of both;

(6) The totality of all subgroups forms the major group or organization;

(7) The organization interacts with other major groups (i.e., society, customers, vendors, competitors, etc.);

(8) The formal organization is guided in its action by an underlying philosophy as personified by a stated mission, a system of policies, principles, and procedures implemented by sound leadership practices;
(9) Activity occurs between factors and forces resulting in interaction and performance;

(10) To be economically sound, the organization must, in the long run, achieve the values desired by its members and by other organizations interacting with it.

This partial list of conclusions drawn from the analysis of a business organization exemplifies the fact that we are dealing with a highly complicated set of interdependent relationships. When two companies merge, changes occur in the environment, leading to even greater complications. It is essential that every effort be made to minimize the period of uncertainty and the complications that can develop from it. The next chapter will examine further complications that can occur in the merger climate.
CHAPTER III
RESISTANCE CAUSED BY CHANGE IN THE ENVIRONMENT

One of the immediate results of a merger is the change in organizational environment that develops for some or all members involved. A situation is created in which change must occur both in the formal and informal group relationships. As a general rule, unless preventative measures are taken, such changes will meet with an extensive amount of resistance. The resistance may be readily apparent or it may be somewhat submerged and difficult to recognize. In either case, the results can be destructive and lingering for a substantial time.

In order to combat effectively the destructive aspects of resistance to change, there should be a clear understanding of the causes of such resistance. Once the potential issues are recognized, steps toward preventative action can be taken. In mergers requiring some form of retrenchment, the issues can become especially complex. It is absolutely essential that extreme care be taken. Otherwise, severe repercussions can develop that will affect the
short-run flexibility and, possibly, the long-range stability of the new organization.\textsuperscript{61}

This chapter will consider the problem of resistance to change and discuss various techniques that may be applied in attempting to minimize it.

**Resistance to Change**

Resistance to change is a problem old as man himself. History testifies that it has played a prominent part in the ways of nations. Indeed, numerous wars between nations have been, in some part, directly attributable to this factor. Today, one can examine the newspapers at any time to find reports related to problems involving resistance to change. Many examples of this resistance are found in the ideology and political activities of various peoples.

More important to our present purpose is the consideration of resistance to change insofar as it affects the business environment. An examination of resistance to change in the business community in the United States brings to light a problem that has been growing in intensity in the past several years. This is the problem of our unemployed. The trend of unemployment in our country represents a severe

\textsuperscript{61}The terms flexibility and stability are considered further at a later point in the chapter.
threat to our economy—and this fact finds mutual agreement within the government, industry, and organized labor. What to do about this unemployment, however, is far more complicated. A large number of today's unemployed are found in various pockets throughout the country and in our economy are referred to as the "technologically unemployed". It is indeed a paradox that we find some areas where there is a high demand for employable persons and other areas where the unemployment lines are astonishingly high. An examination of the latter brings to light the following facts regarding these persons: (1) they have been unemployed for the most part because of expanded automation; (2) they have been unwilling to move to other areas where there are better employment opportunities; (3) resistance has been found in attempting to retrain them for more suitable positions. Numerous estimates contend that although the unemployment problem is not severe, it will become worse unless some successful measures are taken to make the necessary changes to relieve it.  

This is an example of the problem at the national level. Considering the same problem from the standpoint of

---

62 Recent Federal retraining programs have found such resistance, especially in the older age groups (this has been well reported in the general news media). Of importance in retraining programs is consideration to both technological and resistance-to-change problems.
the individual organization, resistance to change has long been recognized by management as a severe industrial problem affecting both the economy and effectiveness of an organization. It is the purpose here to examine some of the literature and studies for applications to the industrial environment. The primary emphasis will be to develop ways and means whereby resistance to change can be reduced, and at the same time to relate some of the theory underlying these applications.

Resistance to change is generally recognized as a problem of industry. But too often the issues involved and suggested solutions are over-simplified. Most writers recognize that resistance usually occurs in one of eight prevalent areas of change:

(1) Changes that lower status or prestige
(2) Changes that cause personal fear of any kind
(3) Changes that affect job content
(4) Changes that reduce authority or freedom of action
(5) Changes that disrupt established routines
(6) Changes that rearrange formal and informal group relationships
(7) Changes that are forced without explanations or employee participation
(8) Changes that are resisted because of mental and/or physical laziness.

Also recognized are the potential ill effects of resistance which can be manifested through turnover, poor performance, passive or active resistance, apathy, job anxiety, or insecurity. 63

In short, many writers acknowledge resistance to change as a problem of industry and will normally indicate the various causes of resistance and the potential ill effects of it. Usually, however, very little or nothing is offered as a possible means of reducing resistance other than suggesting that employees be given full explanation of the need for change; or recommending that, where possible, employees be allowed to participate as fully as is practicable in the program of change. No attempt is made to relate the underlying factors (intervening variables) that are involved. Since a merger creates a climate conducive to a high level of resistance, an attempt will be made here to give further analysis to the issues.

Reducing Resistance to Change

When the civil engineer envisions a project of some nature, his ideas will be formalized in the form of

63 E. Peterson, E. Plowman, and G. Trickett, Business Organization and Management, p. 323.
blueprints and specifications. Similar logic is applied by the industrial manager in establishing the formal organization for the achievement of some project. There is a major difference, however, in these two approaches. Whereas the civil engineer is working primarily with physical objects (i.e., concrete, steel, lumber, etc.), the industrial manager is working with human beings. Unlike the physical objects of the civil engineer, humans show little tendency to conform as stipulated by a formal blueprint. As participants in the formal organization, they are living organisms with their own grand strategy, which, in many instances, will differ from the grand strategy of the formal organization.

For this reason, human behavior must be considered an important component in the activities of an organization. More specifically, if any industrial change is to be effective, consideration must be given to the individuals who will be affected by the change. Or, putting it still another way, if ill effects resulting from resistance to change are to be minimized in a merger, the human element must be considered in the program.

Social scientists have performed a number of studies in the area of resistance to change. From them has evolved
a set of hypotheses worthy of consideration in the business environment. The remainder of this section will deal with these studies and findings which can be related to industrial environment.

**Conflict.** Much resistance to change in industry can be directly affected by conflict resulting from uncertainty and inadequate knowledge of the facts. Recent recognition of this is evident in programs established to improve the lines of communication between management and the employee. Certainly, it can be said that the very foundation of a bureaucratic organization is an attempt to structure the organization so as to minimize the potentiality of conflict.

As stated by one authority:

> Bureaucratic formalization is one method for reducing uncertainty in formal organizations. Official procedures provide precise performance programs, which prescribe the appropriate reactions to recurrent situations and furnish established guides for decision-making.\(^{64}\)

No matter how specific the system, however, change cannot be completely eliminated. External developments and internal modifications lead, from time to time, to unprecedented situations. If the formal organization is not effective in minimizing the conflict resulting from these forces, it is highly possible that the informal organization, that is, the

---

individual acting in an informal capacity, will take steps to overcome the conflict developed. Possibly these steps will be compatible with the goals of the organization. However, often the result is the reduction of individual conflict through the application of methods that are not compatible with the organizational goals.

To minimize the ill effects of conflict, it would be advisable for management to maintain an effective communication system. This would serve to keep the employee, as well as management, informed of the attitudes, needs, and desires of the employees. Through such a program, resistance to change can be detected in its early stages and correction can be made before conditions reach severe proportions.

Management will not in all cases be able to eliminate employee resistance, but steps can be taken to neutralize this problem somewhat. Among the steps management can

\[\text{\textsuperscript{65}}\text{Harr's n White, "Management Conflict and Socio-metric Structure," The American Journal of Sociology (September, 1961), pp. 185-189. White found chronic conflict, fueled by continuous departmental drives for more secure autonomy, implies reliance on bargaining and politics rather than on persuasion or rational problem-solving, and the price the organization paid was recurrent reorganizations of program and structure. He found, in addition, that the common causes for conflict were: (1) uncertainty (most important), (2) desire for autonomy within a group in opposition to other groups (power struggle), and (3) failures.}\]

\[\text{\textsuperscript{66}}\text{Blau and Scott, op. cit., pp. 242-243.}\]

\[\text{\textsuperscript{67}}\text{Chris Argyris, in Interpersonal Competence and Organizational Effectiveness, on Page 238 relates the}\]
take to gain employee acceptance are:

(1) Reduce fear by giving complete explanation of the program, its need and the desired results;

(2) Indicate the effect of the program on the employee as much as is practical;

(3) Relate to the highest practical degree the objectives of the program with the objectives of the employees;

(4) Allow as much employee participation in the program as is possible.

The discussion will now turn to the effective minimization of resistance to change through the use of such techniques as participation, group pressure, and training. When skillfully applied, these methods should bring positive results in resistance reduction.

Participation. Many authorities agree that there is a direct relationship between amount of employee participation in change and degree of employee acceptance of change. 68

following steps in order to minimize resistance: "(1) see need for change, (2) plan change, (3) pick right time for change, and (4) see that employees are intellectually and emotionally prepared."

68 R. C. Davis, in The Fundamentals of Top Management on Page 200 explains this in the form of principle of participation: "A feeling of 'worth-whileness' and 'belonging' tend to develop from participation in the making of decisions underlying the accomplishment of organizational
In a study by R. P. French and others, the advantages of employee participation in change were enumerated as follows:

(1) Has positive effects on morale and labor-management relations;

(2) The technical program develops more rapidly—employees cooperate and bring problems to management's attention;

(3) The new method becomes the brain child of the workers themselves—gives employees pride and feeling of accomplishment;

(4) Acts as a form of communication—gives employees some of the reasons why changes must come.\(^9\)

objectives. It tends to integrate the interests and abilities of individuals with the organization's purposes." Robert R. Blake and Jane S. Mouton, in their book, *Group Dynamics—Key to Decision-Making*, indicate in detail the value of employee participation in gaining successful accomplishment. So also do French, Ross, Kirby, Nelson and Smyth in their article, "Employee Participation in a Program of Industrial Change," taken from *Studies in Personnel and Industrial Psychology* (E. A. Fleishman, Ed.), which states in part on Page 294: "Throughout the whole process, management did not lose sight of its right to make the changes contemplated, but it was equally aware of what the changes meant to the employee. Basically, management laid down a policy of fairness and openness and stuck to it. The results continue to be highly satisfactory."

Rensis Likert relates a study of two comparable groups in industry for a period of one year. Goals of higher production were established for each of the two groups. The first group was hierarchically controlled and the second group was participative. An attempt was made to measure increases or decreases in productivity, loyalty, attitudes, interest, involvement in work, feeling of responsibility, attitude toward high producers, and supervisory satisfaction. Surprisingly, the hierarchically-controlled group had an increase of 25 per cent in productivity during the period, whereas the participative group increased only 20 per cent. Based on consideration of this one factor alone, preference for the use of hierarchically-controlled programs would be indicated. However, while the participative program was five per cent below the hierarchically-controlled program in productivity increase, it showed positive results in all the other factors measured. The hierarchically-controlled program, on the other hand, showed negative results in all the other factors measured. As stipulated by Likert, the results of the study cannot be considered conclusive, as more time would be required to determine which program was in reality most

beneficial. It was his feeling, however, that due to the other factors measured, in the long run participation would prove to be the most effective program.

In Likert's opinion, there is a direct correlation between employee acceptance and employee participation in the majority of cases. However, he points out that if the purposes of participation are to be achieved, they must be integrated with the values, skills, and expectations of the persons involved. In connection with these findings, he has developed the scale reproduced below. The scale stipulates the degrees of participation that can be present in any given situation. This is a rating scale used for the evaluation of research results concerning participation. Results that are measured can be obtained through observation, interviews, or questionnaires.

<table>
<thead>
<tr>
<th></th>
<th>Little Participation</th>
<th></th>
<th>Much Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>No information given to employees, either about the current situation or in advance of proposed changes.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Some information given about the current situation, but never about a proposed change until the change occurs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c</td>
<td>Brief notice of a proposed change given shortly before the change occurs.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

71 Ibid., p. 243.
d. Brief notice of a proposed change given shortly before the change, along with a few reasons for the change.

e. Reports sought from employees of problems they encounter in doing their work.

f. Notice of proposed change and full explanation for this change given well in advance.

g. Employees notified of a proposed change in advance, and an opportunity offered to employees to express reactions and suggestions on the proposed change if they desire to do so.

h. Employees' ideas or suggestions sought generally.

i. Employees notified in advance of a proposed change, and group discussions arranged so that employees can comment on whether the proposed change is the best plan or whether some modification would result in a better plan.

j. Employees (or subordinates) told of a problem, and group discussions conducted to discover the best way to handle the problem, but the final decision made by the head of the unit in light of the ideas and suggestions advanced by the group.

k. Subordinates and leader tackle problem as a group and after consideration and discussion decide upon solution, but leader (or a higher authority) holds right of veto power.

l. Leader and subordinates functioning as a group tackle the problem and solve it, using the best available methods for group functioning.

It would seem advisable to elaborate upon a point made by Chris Argyris. Based on studies, it was found that many managers who felt that they were allowing complete
participation on the part of the employees were, in effect, not doing so. They were attempting to force participation under pressure situations, rather than allowing the employee complete freedom and spontaneity in his discussions. In these cases, the employees were giving the managers what they thought the managers wanted to hear, rather than their frank opinions. This, of course, is not true participation and will not carry with it any of the positive results that are normally associated with the participation program. For participation to be completely effective, the employee must feel that his commentary will not bias his position in any way. He must speak in regard to his feelings and opinions, rather than those he feels others expect to hear. Only then can true resistance be brought to the surface and effectively eliminated.

Group Decision. It is generally accepted in psychology that social pressure exerts an important control over individual behavior. Studies have shown that a person active in a group will normally be influenced by the decisions of that group. That is, if a person becomes active

---


73Numerous studies can be found which justify this statement. A few are: T. M. Newcomb, "Attitude Development As a Function of Reference Groups", and Kurt Lewin, "Group Decision and Social Change" (both found in Readings in Social Psychology, op. cit.); F. J. Rothlisberger and
within a group and that group's interaction results in attitudes, the individual will tend to change his attitudes to those of the group.\textsuperscript{74} Lewin has said that this involves a process of unfreezing, changing, and freezing social levels.\textsuperscript{75} This would include breaking down the initial resistance to change, making the desired change, and taking steps to assure stability in future conformance to the change. The key to this type of program is the influence of the group upon the behavior of the individual. It is the use of social pressure to attempt to accomplish a change of some kind in the individual.

Studies have shown that the use of a group in bringing about change is most successful when the individual becomes active in the group—most specifically, when the individual makes public commitments regarding changes in the presence of the group.\textsuperscript{76} The individual tends to retain the

\textsuperscript{74}It must be added, however, that the assumption is made that the group acts as a positive, rather than a negative reference group to the individual.

\textsuperscript{75}Kurt Lewin, "Group Decision and Social Change", \textit{Readings in Social Psychology}, \textit{op cit.}, p. 211.

\textsuperscript{76}\textit{Ibid.}
group attitudes with a great deal more stability under these conditions than when his role in the group is one of passivity. 77

Based on the findings outlined above, it would seem that the skillful use of committee action in industry might be a powerful tool to apply in the facilitation of change. With the use of skillful supervision, the writer can envision the effective use of committees. As training devices and participative programs, their primary purpose would be the minimization of resistance to change. This does not imply the necessity that the employee be active in making the decision, but rather that the employee be given the opportunity of discussing the decision and making a group commitment to its acceptance. In this way, management would not be abdicating its right of decision. It would, through the effective use of group consultation, be committing the employee to the active support of the decision.

77 Jacob Levine and John Butler, "Lecture Versus Group Decision in Changing Behavior," Studies in Personnel and Industrial Psychology, op. cit., p. 167. "A formal lecture method was compared with group decision in inducing 29 supervisors of 395 factory workers to overcome their biased performance ratings. The results showed that only the group of supervisors involved in group decision improved their ratings. The lecture group did not change and persisted in overrating the more highly skilled workers and underrating the less skilled. The conclusion was drawn that group decision is more effective than the formal lecture in overcoming resistance to change in behavior."
Training. By implication, training is a device whereby the individual is subjected to change or behavior modification. The function of training is to effect changes that allow development of job effectiveness through the development of job skills and knowledge, together with the development of constructive job attitudes. As indicated by recent evidence, there are two possible types of conditions under which change in an individual occurs: changes under motivating conditions and changes under frustrating conditions. It would follow then that there should be two types of training methods; one that instigates a change in habits and attitudes and one that establishes fear-reducing and threat-reducing procedures. The first general training method shall be referred to as motivational training and the second as frustration-reducing training.

In the motivational training method, it is assumed that people will tend to change when more attractive alternatives are offered. Most of the training procedures found in industry today are built on this assumption. The major limiting factor to this procedure is one of finding ways to


79Ibid. Maier contends that fear-reduction and threat-reduction act as correctors to frustrating conditions.
motivate people and the degree of ability possessed by the trainees toward learning. Only if training is successful in overcoming this limiting factor will positive results be forthcoming. However, as is many times the case, there are instances in which training of this type fails when both motivation and learning ability are quite adequate. These are cases in which active resistance to change is found. As stated by Norman Maier, "Some behaviors and attitudes seem to have a quality of persistence or stubbornness that cannot be explained by supposing that alternatives are unknown or are unattractive." When the motivational training method proves inadequate due to this resistance, an alternate method must be used.

In frustration-reduction training, steps must be taken to offset the compelling strength of the old response before efforts to develop substitutes can become effective. These procedures take on therapeutic values in that their purpose is primarily fear-reduction and threat-reduction. The techniques may vary but the goal of reducing frustration is a common one. The techniques applied usually take one of three forms: (1) create opportunity for expressing fears so that they can be recognized for what they are, (2) change the person's perspective so that he can view his own.

---

situation differently and thereby see it without the threat to his security, and (3) let the person discover the possible alternatives, and when he himself discovers them, they contain no fear element.\textsuperscript{81}

It is because so many of our resistances to changing in basic ways involve a fear of losing something, that management training requires the use of methods that reduce fear and frustration and techniques that allow the person to discover the solution himself. The important problem for the trainer is to be sensitive to the subject matter likely to meet with resistance, so that he can adapt his procedures to the conditions he will face.\textsuperscript{82}

Summary

If the business environment were always aware of the reasons underlying various aspects of human behavior, many conflicts would doubtless be eliminated in their infancy and organizational effectiveness would be increased manifold. In enumerating causes of resistance to change, some writers are, in fact, indicating causes of basic individual or group conflict. What is not indicated, however, is that often the conflict, although real to the employee, is largely due to misunderstanding, inadequate interpretation, and fear.


\textsuperscript{82}Ibid.
Often, resistance to change is based more on fantasy than upon fact. It is a situation in which the employee, not being aware of the correct facts, has manufactured his own set of facts in order to reduce his personal uncertainty and conflict. It is truly a disappointing condition when conflict and resistance result from nothing more than misunderstanding. In such cases, there is a simple solution to the dilemma. It is merely a question of management recognizing the situation and taking the necessary steps to eliminate any misunderstanding that has developed.

However, it is also true that resistance to change and conflict can develop as a result of justified causes. At such time, management's problems are more complex. Reverting to the discussion of training in the preceding section, it is clear that management must take steps to attempt to change the habits and attitudes of the employee. Or, it must reduce the frustrations that have developed as a result of the new conditions. Based on the previous discussion in this chapter, it would seem that management would have most success in this area by applying individual and/or group discussion and participative methods. They should be used in such a way as to give the employee or employees the feeling of belonging to and being a part of the decision. This would include showing the employee the necessity for the program. He would be allowed to air all
his personal resentments or conflicts pertaining to the program in such a manner as to find an equitable solution to the dilemma.

**Retrenchment as a Part of Change**

If a given group of top management were asked to prepare a list of decision areas which it considered difficult and/or distasteful, it is reasonably certain that a form of major organizational change would be found at or near the top of each list. This is one of the most difficult areas of management decision and one that is little understood and all too often improperly handled. An insight into the reasons why this is such a difficult problem for management is helpful in the understanding and carrying out of an effective organizational change in a merger.

When top management makes a "popular" decision, that is, popular to the surrounding environment, it meets with a minimum of resistance and conflict from the parties affected. It would truly be a Utopian business condition if this were the only kind of decision management were ever called upon to make. In the business world, however, competent leaders realize that this is not the case. There are

---

83 Personnel, owners, community, customers, vendors, etc.
executives today who would immediately resolve all "popular" decisions to everyone's liking. In the case of difficult or distasteful decisions they would "bury their heads in the sand," until wishfully, the problem went away.84

Also, there are executives who recognize the need to resolve difficult problems. But, because of inadequate preparation and poor planning, they fumble through their solutions and create more harm than good. Included in this group are managers who make hasty decisions without adequate knowledge of the problem and managers who recognize the problem, but are erratic in its solution due to feelings of embarrassment over what needs to be done. Certainly, other examples can be found. It should suffice to say at this point that, in order to do an effective job, management must fulfill its responsibility of recognizing the problem, thoroughly examining the facts surrounding the problem, and having the courage necessary to take the course of action which will lead to the effective solution of the problem.85

84Saul W. Gellerman, in his book, People, Problems, and Profits (New York: McGraw-Hill Book Co., Inc., 1960), says, on page 171: "Many executives, for example, would rather go on carrying incompetent or ineffectual 'deadwood' on the payroll than face the unpleasant task of dismissing them. They, therefore, create—without intending it, and usually without realizing it either, a lulling, protective atmosphere in which mediocrity flourishes and initiative quietly goes to sleep."

85See R. C. Davis's The Fundamentals of Top Management, op. cit., pages 151-152, for a discussion of the "law of the situation" which is the managerial terminology that can be applied to this statement.
Only with a firm determination for effective management and the necessary courage to carry out this determination, can management begin to cope with the problems involved in mergers realistically.

At first blush, businessmen tend to associate the term "retrenchment" with such cliches as "cut-back," "bad times," "housecleaning," "reduction," etc., in the worst possible connotations. Certainly, retrenchment implies some form of cost reduction. If properly handled, however, it should not result in a catastrophic situation. Retrenchment may be defined as a planned program of cost reduction to be completed within a specified time period. The plan can be of short duration (short-run approach) or of longer duration (long-run approach). The determination of need for such a program can be originated from within or without the company.

The application of retrenchment in the form of a planned program is, as stated, subject to a given time period. The concept of retrenchment, however, should not be subject to any time limit. Its recognition as a tool of management should be a continuous one. Management should remain aware of the uses to which this tool can be put and

---

86 The reasons for setting time periods are discussed at a later point in Chapter IV.
be willing to apply it whenever the need arises. If management fails to acknowledge a need when it arises, it is highly probable that others will recognize it eventually, much to management's personal embarrassment. When the need for retrenchment arises in a merger program, management should give immediate attention to this need and take prompt action. To do otherwise is to retain a situation which is ripe with frustration and its resultant complications.

The need for retrenchment can develop as a result of a number of causal factors, internal or external in nature. The first, and probably most evident internal factor is a decline in profits. Obviously, if profits are falling below an acceptable level, some corrective action must be found. Retrenchment is one alternate course of action that might be applied. A second internal factor may be referred to as stagnation. If a business becomes sluggish or dull in its operation, that is, "a day late and a dollar short," steps must be taken to revitalize it. A third internal indicator is a tendency toward bureaucracy. Examples of this tendency would be duplication of effort and excessive red tape.87

87Chris Argyris, in Interpersonal Competence and Organizational Effectiveness, op cit., discusses organizational bureaucracy. At one point on pages 6 and 7, he states, "If vital administration is one that is able quickly to adapt to change, so also must it sometimes initiate change in order to avoid or to correct the excesses of bureaucracy."
External causal factors can be found in five major areas: the competitive situation, the seasonal trend, the cyclical trend, the secular trend, and government pressure.\textsuperscript{88} If too much of the business seems to be going to the competition, there certainly is cause for alarm. A possible solution to this problem might be to become more competitive by reducing costs.\textsuperscript{89} Seasonal, cyclical and secular trends create special problems, partial solutions of which may be embodied in methods of retrenchment. These problems will be discussed at a later point. Government pressure may become a causal factor due to an unfair monopolistic condition.

This list of indicators is by no means complete. It is merely an example of some of the more prevalent reasons or causes which result in the institution of a program of retrenchment by management. A causal factor does not guarantee that corrective action will be taken. It is merely a sign that some corrective action may be needed.

\textsuperscript{88}More specifically, these factors can be reflected by a failure to maintain a competitive rate of innovation, union monopoly labor costs, union production restrictions, uneconomic plant location, etc.

\textsuperscript{89}See John D. Staley, \textit{The Cost-Minded Manager}, for discussion (New York: American Management Association, 1961). On page 18 he says: "Nearly all companies pay about the same price for the goods and services they buy. Thus, with a ceiling on prices and with everyone paying roughly the going price for goods and services, the manufacturer is forced to compete on the basis of sound management of his resources."
Although management is not the only group that may recognize a need for retrenchment after a merger and supply the impetus for developing a given program, it certainly should assume the lead in carrying out its responsibilities. A lack of action on management's part is often a result of its not understanding, and thus not attempting to achieve, the objectives of a business. The causal factors discussed in the previous section are indicators of the presence of a problem. A positive reflection from these indicators will not act as a guarantee that there is no problem. For example, the presence of a substantial operating profit is no assurance of the absence of waste within the firm. A lack of competition for a product is no guarantee that the product is being distributed with a maximum of economy and effectiveness.  

90The writer is familiar with an actual situation in the manufacture of a tubing connection for oilwell production tubing in which one major company enjoyed a monopoly over a specialty product for over ten years. It numbered all the major oil-producing companies among its customers. A small group of persons organized their own company and had, within one year, taken over 20 per cent of the large competitor's business. Within three years, they had 50 per cent of the business. Upon examination, the following interesting facts were uncovered: (1) the small new competitor was limited initially in its ability to enter the field by shortage in capital. The only reason it had just 20 per cent of the business in the first year was that its maximum production capability was limited; (2) the primary reason found for the major oil companies having changed suppliers was that they had been dissatisfied with the quality and service of the large supplier for some time, but could find no substitute for its product before this;
The only way that management can feel reasonably sure that it is doing its job most effectively is for it to continually do that job in light of the business's primary service objectives. Only then, can it hope to achieve in the long run its collateral and secondary business objectives.

The concept of change should be considered as a positive tool of long-range growth by management. As such, it should be continuous in scope. If management will use the concept of organizational change in light of achieving the primary service objective, it will do a far better job of fulfilling its responsibilities and attaining the collateral and secondary business objectives.

(3) the attitudes and policies of the original supplier have since changed and it is now directly competitive with the smaller company in terms of quality and service.

91 Most management writers will agree that the achievement of the service objectives of a business are primary. R. C. Davis, in The Fundamentals of Top Management, defines on Page 10 the primary service objective in business as follows: "Its primary mission is to supply the public with whatever goods or services it desires at the proper time and place, in the required amounts having the desired qualities, and at a price that it is willing to pay."

92 Ibid., pp. 10 and 11: "Collateral business objectives are those that the business organization is expected to accomplish in some reasonable degree, without any material or unnecessary sacrifice of its primary service objectives. This classification includes chiefly those personal and social objectives that enter into or are affected by the operations of the business organization. "Secondary business objectives include those values that are needed by the organization for the accomplishment of its primary and collateral objectives. They have to do chiefly with economy and effectiveness."
Whenever management proves itself unwilling or unable to carry out its responsibilities, there are always others willing to take advantage of management's weakness and do so for it. Management's conscience toward its responsibilities can, if necessary, be kindled from within or without the firm. Among the internal action starters number the stockholders, board of directors, and interested personnel. Among the sources of external impetus are competitors, creditors, banks, unions, and the government. In some cases, these sources of recognition impetus can be of great help to management in recognizing its problems and seeking solutions. Many times they can also be embarrassing, because in some manner they may be a reflection of managerial incompetency.

Considerations in Determining the Program of Change

The effective determination of an integration of organizational interests program involves a number of important considerations. As indicated previously, the concept of change is a continuous one, and as such, is important in a company's need for long-range growth.93 Because of this

93Peter F. Drucker in The Practice of Management (New York: Harper & Bros., 1954) on page 251 makes the point that, "Growth (provided it is not the mere addition of fat) is the result of success. A company grows because it is doing a good job."
importance, a given program of change cannot lose sight of a company's long-range growth requirements. Neither, however, can the program ignore immediate requirements or needs. Therefore, any program should be developed as a result of the careful blending of both the short-run and the long-run requirements of a given company.

Consideration to Long-Range Growth

It is a generally accepted statement that a company must continue to grow or ultimately it will perish. Even in a program of change, the primary purpose should be to enhance the long-range growth objectives of a company. All too often management loses sight of this fact and institutes rash change program which are detrimental to growth, rather than beneficial to the ultimate growth objectives. A management philosophy maintaining the concept of change as a continuous one will anticipate and resolve many of the company's needs with minimal organizational disturbance, confusion, and anxiety. It might be said that change is a


95 For example, H. C. Thole and C. C. Gibbons, in their book, *Business Action in a Changing World* (Chicago Public Administration Service, 1956) make the following statement on page 133: "It may be timely, therefore, for each company to take a fresh look at the return obtained from the dollars of out-go. If laxity in spending has
series of continuous programs, the purpose of which is to help achieve the primary objectives with a maximum of economy and effectiveness. Proper utilization of these programs will lead to organizational growth, because organizational growth is the result of the effective and economical achievement of the primary service objectives.

**Factors Involved in Maintaining Long-Range Growth Potential.** It is necessary that any program of change consider all the factors, forces, and relationships surrounding it in such a way that the program will not only achieve the immediate ends, but also be of positive purpose in the achievement of the long-range requirements. To be of maximum effectiveness, a program of change should achieve its objectives with as little negative effect upon company stability, flexibility, and morale as is possible. It is absolutely necessary that adequate control functions be established to assure that any given change program achieves its ends in as positive a manner as is possible.

Organizational stability relates to the managerial manpower requirements of an organization. For a given company to be assured of continuity and effectiveness in its developed, the sooner such waste is stopped, the more certain is the firm to remain competitive without drastic retrenchment at a later time when collective retrenchment would only accelerate the forces of recession. The time to fix the roof is when the sun is shining."
growth, it must maintain an adequate managerial inventory within the firm.\textsuperscript{96} In a program of change, caution must be followed so as not to sabotage the progress of managerial development and training. The second principal attribute related to long-range growth pertains to organizational flexibility.\textsuperscript{97} This involves an organization's ability to meet short-run changes in business climate with a minimum loss of economy and effectiveness. If improperly applied, it can have a negative effect on organizational ability to meet long-range growth requirements.\textsuperscript{98} A plan of integration of interests can be a most effective tool in the achievement of the principle of organizational flexibility. The third important consideration in planning a program of change is the effect of such a program on an organization's

\textsuperscript{96}R. C. Davis, on page 490 of \textit{The Fundamentals of Top Management}, defines stability as follows: "The quality of an organization that enables it to adjust itself promptly to personnel losses without serious loss of economy or effectiveness. It is the quality that enables it to perpetuate itself, insofar as personnel is a factor in its existence."

\textsuperscript{97}\textit{Ibid.} R. C. Davis states on page 508 that flexibility may be defined as "That quality in an organization that enables it to adjust itself to temporary changes in business conditions without serious losses of economy and effectiveness."

\textsuperscript{98}\textit{Ibid.}, pages 520-521. R. C. Davis indicates a principle similar to flexibility, but pertaining to the long range, which he calls organizational capacity for growth and which reflects the ability of an organization to adjust its personnel and structure to permanent changes in business volume without serious loss of economy or effectiveness.
moral.\textsuperscript{99} The institution of a program resulting in a negative effect on organizational morale can have serious consequences to the organization's need for long-range growth.

At this point, the function of control is considered in relation to assuring that the change program is compatible with the long-range growth objectives of the company. Control is universally accepted as an organic function of management.\textsuperscript{100} As with any other managerial activity,

\textsuperscript{99}In the Personnel Handbook, edited by John F. Mee (New York: Ronald Press Co., 1955), a definition of good morale is given as follows on page 926: "It is the mental attitude of the individual, or of the group, which enables the employee to realize that the maximum satisfaction of his drives coincides with the fulfillment of the objectives of the company. In other words, the employee identifies his objectives with those of the company, not merely subordinates his own desires to those of the company"; Michael J. Jucius, in his book, Personnel Management, on page 338 defines morale as, "A state of mind and emotions, affecting willingness to work, which in turn, affects individual and organizational objectives" (Homewood, Illinois: Richard D. Irwin, Inc., 1963). Other authors choose not to use the term, "morale," but will state definitions in terms of attitude or state of mind. In all cases, however, the consensus seems to be that for good morale, or for an effective level of morale, there must be an integration of interests of the company objectives with those of the employee.

\textsuperscript{100}For a detailed discussion of the organic control function, see R. C. Davis, The Fundamentals of Top Management, Chapters 17, 18 and 19. On Page 23 Professor Davis states, "Controlling is the function of constraining and regulating action in accordance with the requirements of the plan." Harold Koontz and Cyril O'Donnell, in Principles of Management, op. cit., on page 36 make the following definition: "The control function includes those activities which are designed to compel events to conform to
control is an important facet in the development and achievement of a change program. (This will be discussed in more detail in the next chapter.) In this regard, controls should be established to assure that the change program lends to, rather than detracts from, the company's long-range requirements.

Reappraisal of Purpose and Procedure for the Long Range. The concept of change has been stated as a continuous one, and it has been pointed out that an individual change program is normally established to adjust for a growth need in light of the long-range goals. It is possible, however, that in line with a program of change, it may be necessary to reappraise the purpose and procedure for the long range. Consistent management will annually reexamine its long-range objectives and, where deemed necessary, make required adjustments (especially at the time of a merger). It is possible that an adjustment of long-range goals would result in an immediate need for a change program, or conversely, the necessity of a current change could be an indication that adjustment should be made in the long-range goals.  

101 A simple example of this would be the decision of
long-range goals is a form of retrenchment program, although it may not have any direct effect on current activities. For example, a reduction of planned costs is a type of before-the-fact retrenchment. The better the job the company does on its retrenchment program dealing in futures, the less will be the need for enactment of severe retrenchment programs involving current activities. In other words, the reduction of planned growth, not the elimination of it, can be considered a type of retrenchment program. Certainly, the suggestion is not to impede growth, but merely to be more realistic, thereby enhancing it. Effective management at the time of a merger will audit its long-range growth objectives, goals, and ideals in light of current knowledge. Where necessary, it will make changes and revise its standards, policies, procedures, plans, and systems of control to carry out these changes. The more accuracy that can be applied to estimates involving the future, the less difficult will be the problems of the present.\textsuperscript{102}

\textsuperscript{102}For example, the company that can foresee the need for temporary retrenchment enough in advance to reduce through not filling vacancies as they occur, will cause less
Consideration to Short-Range Programs of Change

The purpose for establishing a program of change is the anticipation or elimination of some difficulty within the firm. A problem may have already occurred or there may be a situation where action must be taken to prevent a problem from occurring. Thus, the objective of a change program is either to correct a current problem within the organization, or to prevent a potential problem seen as a threat to the organization. Once the need for a program of change has been recognized, there remains a number of steps necessary for the final accomplishment of the program. These are (1) determine the method of accomplishment, (2) determine the amount of employee participation desired in the program, and (3) determine the means of accomplishment.

Determine Method of Accomplishment. Determination of the method of accomplishing a change program may vary according to need or desired results. Basically, there are two methods. The first is known as the short-run approach, sometimes referred to as the "meat-ax" or "earthquake" approach. The desired result is the accomplishment of the

internal conflict than the company that is forced, through lack of adequate planning, to make immediate terminations to meet its requirements. It is not being implied at this point that good intermediate- and long-range planning will completely eliminate the need for rapid retrenchment programs. It is merely stated that this need will be greatly reduced if management does its job properly.
change program as rapidly as possible. Proponents of this method argue that change is generally distasteful to everyone. Therefore, the more rapidly it is completed, the less will the organizational routine be disrupted. Opponents of this system argue that the long-run effects of rapid change will negate the short-run achievements through disruption of employee morale. The second method of accomplishing a change program is known as the long-run approach and is sometimes referred to as the "continuous" approach. In this method of change, the program is extended over a period of time so as to cause a minimum of disturbance to the organization. Its proponents find its value in the fact that far less is done to disturb employee morale and that it allows for greater employee participation. The opponents of the program argue that the need for change infers a need for immediate action. Therefore, anything short of immediate action represents inefficiency and waste to the organization.

Both methods have value and it should depend largely on the requirements of the given program as to which is used. Factors that should be considered in determining which program is better are (1) the time sequence necessary to complete the project, (2) the amount of employee participation possible and practical for completion of the project,
and (3) the consideration of centralization versus decentralization in the completion of the project.

**Determine Desired Employee Participation.** If timing is a material factor, the choice of program to be used will certainly be affected. In an emergency, it might be necessary to use the short-run approach. If speed of accomplishment is not the essential factor, however, it is probable that there would be more value in using the long-run approach. Most authorities agree that there is a direct relationship between amount of employee participation and degree of employee acceptance.\(^{103}\) Therefore, it would logically follow that the more employees are allowed to participate in a program of change, the less will be their

\(^{103}\)R. C. Davis, in *The Fundamentals of Top Management*, op. cit., on page 200 explains this in the form of principle of participation: "A feeling of 'worth-while-ness' and 'belonging' tend to develop from participation in the making of decisions underlying the accomplishment of organizational objectives. It tends to integrate the interests and abilities of individuals with the organization's purposes." Robert R. Blake and Jane S. Mouton, in their book, *Group Dynamics—Key to Decision-Making*, op. cit., indicate in detail the value of employee participation in gaining successful accomplishment. So also does E. W. Fleishman in *Studies in Personnel and Industrial Psychology*, in which he states in part on page 294: "Throughout the whole process, management did not lose sight of its right to make the changes contemplated, but it was equally aware of what the changes meant to the employee. Basically, management laid down a policy of fairness and openness and stuck to it. The results continue to be highly satisfactory."
resentment toward the program. A problem involved in allowing participation is that the program is certain to become more cumbersome and require additional time in its accomplishment. However, this may be more than offset by the values acquired through employee acceptance.

If a change program must be achieved rapidly, it will be necessary to centralize the management and control of the program. In other words, the more immediately acute the problem, the greater the need for centralized decision-making. Centralization may be defined as "the systematic and consistent reservation of authority at central points within the organization." Decentralization is "the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points." The greatest value of decentralization is the allowance of greater participation in a program on the part of subordinate managers. This gives them valuable experience, as well as a feeling of being part of the program.

---

104 George S. Odiorne, in his book, How Managers Make Things Happen, gives an example: "One paper company during the recession of 1958 attacked the problem of cost reduction by asking every factory employee to suggest savings which would be allocated to advertising and marketing to boost sales and preserve their jobs. The result was great improvement." (New Jersey: Prentice-Hall, Inc., 1961).

105 These definitions were taken from Lewis A. Allen, Management and Organization (New York: McGraw-Hill Book Co. 1958), pp. 158 and 162.
Centralization of a program, on the other hand, carries with it the advantages of (1) less expensive and wasteful duplication of functions and cost, (2) increased coordination of activities, and (3) more adequate control.

**Determining Responsibility for Accomplishment.**

Closely aligned to the method of accomplishing a change program is the means of accomplishing such a program. The basic responsibility in a merger situation necessarily lies with top management for any such program. It, in turn, may enlist technical aid in its accomplishment. This aid can come from within the firm through soliciting the support of competent subordinates from both organizations, or management can look outside the firm to the use of specialized consultants.\(^{106}\) Once management has gathered the necessary

---

\(^{106}\) Competent consultants can be found in virtually every field of business and, properly utilized, can be a valuable aid to management. Charles L. Jamison, in *Business Policy* (New York: Prentice-Hall, Inc., 1953) states on page 243: "Professional consultants have three basic advantages over company officers and employees: (1) They bring in a point of view attained by experience with many enterprises; they can see things in the proper perspective. (2) Their approach to problems is impartial; they have no personal interest to color their judgment. (3) They have nothing else to do but to concentrate on the problem before them; no routine duties distract their attention." The writer is aware of situations in which consultants have been hired to, in effect, partially bear the blame for unpopular managerial decisions. When this occurs, management normally begins its explanation to the employees in terms like this: "Unfortunately, due to professional advice, it will be necessary to . . . etc." Although this is recognized as a possible use of some consultants, it is of questionable value, being based upon improper use of their services and an attempt at "buck passing."
team, it can proceed to determine the best means of accomplishing the program.

The Program and Acceptance

In summary, it can be said that the adequate accomplishment of a company's primary mission will lead to long-range growth. In the immediate merger period, a given program of change must not lose sight of the necessity for adequate accomplishment of the objectives inherent in the mission. To assure compliance with the mission, a given program must attempt to maintain an adequate level of stability, flexibility, and morale within the organization. This, in turn, requires that effective planning and adequate controls be built into the program and that the maximum possible amount of employee acceptance of the program be achieved.

At the very least, the employees of both organizations must understand the need for the program.107 At the optimum, the employees will participate to the fullest possible extent in carrying out the program. In either

107 The following statement is made on page 192 of the Top Management Handbook, edited by H. B. Maynard (New York: McGraw-Hill Book Co., 1960): "If attainment of the objective is clearly and demonstrably in the interest of the company, management must succeed in establishing a self-evident relationship between company interest and the interest of the individual."
case, employee objectives should be integrated with those of the company if ultimate success is to be achieved. Only in this way can a given program hope to gain positive, rather than negative end results.
CHAPTER IV
THE MANAGEMENT OF A MERGER

Of prime importance in a merger is the establishment of a program for the effective accomplishment of the integration of organizational interests. This includes decisions pertinent to (1) responsibility for the program, (2) priority for accomplishment of the program, and (3) factors involved in the planning, organizing and controlling of the program. Each of these will in turn be considered in this chapter.

General Approach to the Integration of Organizational Interests

When two organizations are relatively sure that they will be entering into a merger, the initial steps should be taken for the establishment of an inventory of the philosophies of each. The responsibility for inventory determination may lie primarily with one or more executives of the acquiring firm, or a combination of executives from both of the firms. The second alternative is considered to be the most logical one in most instances because it
gives members of the acquired firm an opportunity to participate in the planning process that will affect both organizations. If top executives have the time and knowledge necessary they may proceed with the audit themselves. Or, as an alternative, they may hire consultants to perform this function for them.

**Corporate Executives Performing the Audit**

There are a number of values derived from the performance of the audit by executives of the acquiring and acquired firms. First, as previously mentioned, is the value of participation of members from both groups.

---

108 See Chapter V for actual practices in industry today.


"We have spent a year and three-quarters in the process of searching, screening, and appraising. We have looked into more than 200 individual companies and have acquired three. During the same time we have looked into 64 different products and acquired none. On the other hand, we have gotten a very good foothold in one of the two fields we selected, that of miniature electronic components, though we have made very little progress in the other field as yet.

We know that, as a by-product of our searching and screening, a fair share of our management people have gained good education regarding fields that in the past were
Second, these men should be more familiar with the philosophies of their own organizations and be able to recognize quickly points of concurrence and points of difference in the two philosophies. The major problem with this approach is the possibility that executives might tend to oversimplify the issues involved and overlook certain critical aspects of the program. These potential difficulties that can occur as a result of being too close to the problem totally unfamiliar to them. The program has gained momentum, and we expect to continue it for some time in the future.

In addition to these specific results, we have some other by-products:
1. The tempo of the whole organization has been increased.
2. Diversification has put real meaning and urgency into the executive development program.
3. It has given an opportunity for advancement to many promising people.
4. It has increased the competitive position of our company in respect to attracting first-class employees.
5. It has broadened the views of many of our people.
6. It has increased the interest of investors in our company.

In conclusion, a few general comments. We started from necessity, not philosophy. We feel that we are well under way and are making good progress. We have already made, and will later make, mistakes which we will have to 'eat.' We will have severe cases of indigestion from time to time. But, in the balance, we expect great benefits to accrue to our shareholders and our employees."

William H. Coleman, "What Makes Mergers Worth-While," The Management Review, March, 1960, p. 43. "Managements that have successfully carried out mergers and acquisitions seem to have four traits in common: They know what they hope to achieve, how to size up another firm, and how to finance the deal they want; and they realize the importance of the human element."
can be overcome to some extent through utilizing the services of a qualified management consultant.

The Use of Management Consultants

Consultants are valuable in merger situations because they bring to the corporation experience both in depth and breadth in the field of mergers. They are also able to offer an outsider's unbiased viewpoint. Impartiality may be difficult to achieve when an organization uses its own members to plan the integration. In addition, many corporate executives may find it difficult to formalize their thinking in the area of organizational philosophy because they have not had experience in doing so in the past. Some of the disadvantages of using outside consultants are that they will need some time to become familiar with the organizations and will result in an additional cost factor to the organizations. However, if they do an effective job, the cost becomes less important in relation to the results achieved.112

The Timing of Organizational Integration

The reasoning that leads ultimately to a merger between two companies has many beginnings. Some acquiring firms set out systematically in seeking potential merger

112See footnote on page 102.
prospects; others often have no specific merger plans prior to the development of a merger. Regardless of the initial contact or basis for the development of interest in the merger, all mergers can be broken into a number of stages. The emphasis of each stage in terms of time and expenditure will vary according to the situation and the personalities involved. However, each of these has as a desired end result the eventual evolution of a cohesive organization. The time required to achieve each stage will depend greatly upon the effectiveness with which the previous stages are completed. For purposes herein the merger is split into two periods, one having to do with the pre-merger activity, and the second reflecting post-merger activity.

**Pre-Merger Period**

The pre-merger period can be broken into three major stages: the preliminary stage, intermediate stage, and final stage. It is during these stages that initial interest in the merger is developed, evaluations are made, and final negotiations are entered into. At various points in the process, different groups will become involved in the process of making the ultimate merger decision.

**Preliminary Stage.** At the preliminary stage of pre-merger activity, some recognition develops regarding the potentiality of an eventual merger. Generally, at this
stage only a portion of the top management of both firms is involved in, or familiar with, the discussion. At this point, broad generalizations regarding feasibility of the merger are established in the minds of the active management. This has the effect of being a broad screening process whereby the decision is made as to the feasibility of further consideration on the part of each of the firms. Under discussion at this time are such questions as: (1) What are the potential values of this merger to each of the firms involved? and (2) Is it conceivable that financial consensus can ultimately be achieved? If the discussions are successful and a basis for preliminary agreement is reached, the firms will move on to the intermediate stage of evaluation.

**Intermediate Stage.** At this stage of negotiation, other members of each organization should be apprised of the current situation, and formal plans for the evaluation of each by the other should be established. It is universally accepted at this point that financial audits of each firm will be performed for the purpose of establishing monetary values. Also, it is not uncommon for top management, and in many instances several levels of middle management from each firm, to utilize this time period to become acquainted informally with the activity and methods of the other organization. Also, this is the time when legal
considerations are being studied. Although often overlooked, but of prime importance, is the need for a formalized audit of each of the organization philosophies at this time. By necessity this cannot involve a great deal of time and expense, but should be performed in enough depth to include consideration in a formal way of the following factors: (1) mission; (2) principles and ideals; (3) broad corporate policy; (4) executive leadership; and (5) organizational climate. Points of material difference should be thoroughly analyzed in order to recognize situations in which change is necessary. The groups in each organization should come to an agreement regarding not only the financial matters, but also any necessary changes or adjustments in the philosophies of either organization. To leave this undone is to leave the ultimate success of the merger largely to the element of chance.113 This is


"In January, 1960, the merger had all appearances of an ideal marriage. MacMillan & Bloedel, Ltd., was larger in sales ($181-million compared with $60-million), but Powell River Co., Ltd., had almost twice its profits. M & B was deeply involved in lumber and plywood but was just getting into paper; Powell River was concentrated in pulp, newsprint, and paper. It seemed the two companies would mesh perfectly.

However, when they came under the same corporate roof, the fur began to fly at the executive level. Contrasting styles. It turned out that the Powell River people were used to an informal, decentralized way of doing things, with much responsibility delegated to middle management. MacMillan & Bloedel, in contrast, was a hard-driving, centralized, one-man operation."
not to say that the problems that may ultimately result will be uncorrectable. However, the cost in time and loss of business factors can be highly prohibitive and disastrous to the merged organization. Once all problems have been overcome at this stage in the process, the firms are ready to enter the final pre-merger stage which involves legally consummating the merger.

**Final Pre-Merger Stage.** By this time in the process, the merger has been approved by the top managements and boards of directors of both firms, and is now ready to be consummated, subject to the final acceptance of other interested parties. Obviously, in all cases these other interested parties include the stockholders of each of the organizations who must by law vote and approve of the merger. In addition, however, in the case of large

---


"Most well-conceived mergers are successful—ultimately. But there is an almost classic pattern of short-term failure: a honeymoon of hopes and promises; dawning and reluctant awareness of mutual flaws; disillusionment; and crisis. Before the crisis is resolved, the timetable has been set back by several costly years. The penalty is heavy in loss of profits, market position, technical advance, and able men.

Experienced managers are well aware of this risk. They know that the signing of merger documents is just the beginning, not the end. Beyond legal and financial merger lies the intricate and delicate task of fitting together two very different organizations, each with its structure of leadership, status, methods, habits, traditions and values—and each with a built-in reluctance to change its established ways."
organizations, the approval of society may also be necessary. In small organizations the approval of banks or other financial institutions may be necessary. Often overlooked at this point is the value of also getting the approval of the personnel of each of the organizations. The literature has long recognized that persons playing an active part in the decision are far more likely to support that decision than those taking a passive role. Management of each organization, insofar as practicable, should attempt to gain acceptance of the proposed merger by all interested personnel and labor unions, when involved. Although this is not a specific requirement of the merger, it could lead eventually to a substantial reduction in post-merger problems.

Post-Merger Period

Immediately after the legal consummation of the merger, immediate steps should be taken to plan for the integration of the organizational interests. The timing and complexity of the plans will depend greatly upon the degree of autonomy that will be retained in the acquired organization. The more autonomous the acquired organization will be, the less critical will be the potential integration problems.

See Chapter II.
that can develop. This is due to the fact that there will be a lower level of interaction between the two groups. However, autonomy does not infer less of a need for integration. It merely implies that the timing for integration is a less critical factor. If, on the other hand, the factors of the two organizations are to be immediately combined, timing becomes a highly critical factor in planning.

In either situation, the new organization should take immediate steps to establish short-, intermediate-, and, if necessary, long-range plans as a basis for effecting the ultimate integration of the two groups into one organizational system. This post-merger period can be divided into three stages. The emphasis placed upon each stage will largely be a reflection of the importance of timing in integration. These stages are the immediate post-merger stage, the intermediate post-merger stage, and the final post-merger stage.

**Immediate Post-Merger Stage.** At this point the situation is, in many respects, a critical one. Future success or failure attributable to the merger can be greatly affected by the actions carried out here. This is the period of indoctrination and education of the personnel regarding the impact of the merger and how it will affect them individually and collectively. Here management should
perform a detailed audit of the various factors of each organization and establish the plan for the education and implementation of one uniform philosophy throughout every level of the new organization. Here, also, management attempts to anticipate the potential problem areas and to make corrective action before any ill effects result. After determination of the adjusted philosophy of the new organization, this would consist of a detailed examination to assure compliance of the following:

(1) Affected personnel of each organization, including problems of structure, function, status, and responsibility;

(2) A review and appraisal of corporate policy;

(3) An evaluation of all procedures and corrections in light of the new philosophy;

(4) An integration of thought in terms of management methods; and

(5) A study of the newly-established relationships. Management must at this point recognize that the above program, effectively implemented, should result in the establishment of well-defined formal role relationships.  However, management must also recognize the informal relationships and how to effectively develop them in light of

116 See Chapter I.
the organizational philosophy. Every attempt should be made to minimize the potential ill effects that can result from blockage in the establishment of new integrated informal relationships. Based upon these determinations and in consideration of the importance of the time element, management must then proceed to establish the plans for the formal and informal integration of interests. Once these plans are made, the company is ready to move into the intermediate post-merger stage.

**Intermediate Post-Merger Stage.** It is now that the previously established plans will be put into action and results periodically measured. This stage can be relatively short in duration or can continue over a period of years. The time involved will depend upon how rapidly management has attempted to achieve integration and how effectively it has planned for it. It should be remembered that the integration of interests in mergers cannot be completed overnight. It can only come about as the result of an

---


"One of the scarcest skills in management planning is the ability to produce an objective evaluation of a proposed organization. Emotion, self-interest, and fixed points of view get involved. Moreover, it is very difficult to visualize the combined impact on the proposed organization of the people and systems that will operate within it. Despite the difficulties, however, common sense can do much to prevent the creation of unwieldy and inefficient organizational structures."
effective accumulation of adequate planning. Once this has been achieved, the final merger stage will have been reached.

**Final Post-Merger Stage.** When the final stage has been successfully realized, the personnel of the two previous organizations will be performing together effectively as one cohesive group. They will not associate themselves with either of the previous organizations. Rather, they will consider themselves members of the new organization.

**Management Functions Involved in the Integration of Organizational Interests**

For the integration of organizational interests in a merger to be successful, extensive effort must be put into the planning, organizing, and controlling of the integration program. The development of a specific program will be covered in Chapter VI. The purpose at this time is to examine the importance of these three functions in the integration of organizational interests.

**The Need for Planning**

Planning attempts to anticipate the future in order to be better prepared in performance. As such, planning must give recognition to the factors, forces, effects, and relationships inherent in the business situation. Its purpose should be not only the anticipation of future
performance, but also the recognition of situations that could lead to potential difficulties. To be most effective, the recognition of potential difficulties should occur early in the planning stage in relation to performance. This is to insure that corrective measures can be developed prior to the occurrence of any ill effects. The more accurate one is in the anticipation stages of planning, the more effective will be the organization's level of performance.

Since a merger leads to the development of new relationships, planning becomes somewhat more difficult than in a relatively static environment. This is why it is doubly important for management to give full recognition to all of the factors involved, in order that it can better predict potential future situations. A poor job of planning at this time will undoubtedly lead to problems of organizational flexibility. It could also have an effect upon the organization's long-range stability. In short, plans for the integration of organizational interests should


"Planning is the managerial function of determining in advance what a group or an individual should accomplish and how the goals are to be attained. It establishes goals, methods of accomplishing them, and what resources will be necessary. It is a function by which the work that is eventually to be done is programmed in advance. Each level of an organization takes the planning of the level above it and either converts the plans for the level below or applies the plans as given. Planning is the original decision-making step of managerial action."
include the following premises: (1) supply the necessary information; (2) provide criteria for satisfactory accomplishment; (3) include applicable philosophy; (4) designate the leadership; (5) set up the time limitation for accomplishment; and (6) recognize specific factors that affect the accomplishment of the plan. 119

To give this information in a meaningful fashion, an orderly process must be established for the development of plans. This requires a fixing of responsibility for the planning function and the establishment of an effective planning format. Such a format would be based upon a scientific method of problem solving. This would include:

(1) A recognition of the principal difficulties related to the integration of organizational interests in the merger; 120

(2) Preliminary observation and analysis;

(3) Determination of limiting factors inherent in the situation; 121

119 R. C. Davis, Fundamentals of Top Management, p. 44.

120 A difficulty may be defined as a problem that must be resolved in facilitating the achievement of objectives. It may be a "real problem" that has occurred, or it may be a situation in which the probabilities of a future problem occurring are relatively high. Difficulties are roadblocks to the achievement of the mission and must be eliminated to optimize success.

121 A limiting factor may be defined as a constraint upon action. A limiting factor defines the upper and/or lower limits of the capacity of a given factor. For example,
(4) The development of tentative solutions (working hypotheses);

(5) The analysis of these hypotheses;

(6) The testing of proposed solutions including
   (a) Determination of the tests required for verification of the solutions,
   (b) Collection and classification of the required information, and
   (c) Analysis and study of the data;

(7) The development of the most logical solution;

(8) The final testing of the solution;

(9) Intelligent compromise;

(10) The installation and activation of the agreed plan; and

(11) The application of effective controls to assure compliance.122

With responsibility fixed and the planning system established, the time order for accomplishment can be determined. This may involve a simple scheduling procedure or, in complex situations, might require the application of a

the amount of capital available, or the minimum wage may in different instances be considered limiting factors within which an organization must operate.

122R. C. Davis, Fundamentals of Top Management, pp. 60-61. These eleven steps will be covered in detail in Chapter VI - A Program for the Integration of Organizational Interests.
"Program Evaluation and Review Technique," (PERT).\(^{123}\)

PERT is a statistical technique—diagnostic and prognostic—for quantifying knowledge about the uncertainties faced in completing intellectual and physical activities essential for timely achievement of program deadlines. It is a technique for focusing management attention on danger signals that require remedial decisions, and on areas of effort for which trade-offs in time, resources, or technical performance might improve capability to meet major deadlines.\(^{124}\)

PERT has a number of characteristics which make it valuable to management in planning and controlling for the integration of organizational components in a merger. Among these characteristics are:

1. Creation of a realistic, detailed, easy-to-communicate plan which greatly improves the chances for attainment of project objectives.


3. Attention focused on parts of a project which are most likely to impede or delay its achievement.


(4) Information provided about project resources that are not being fully utilized.
(5) Simulation of alternative plans and schedules.
(6) Provision of thorough and frequent project status reports. 125

Since there are many variables involved in the planning for integration of organizational interests, it is essential that a priority for accomplishment be established. Each aspect of the integration program should be placed in a logical sequence for performance. This sequence will be based upon a balancing of the criteria of (1) urgency (rating of programs in terms of critical need), (2) timing (coordinating in proper sequence various aspects of a program), (3) ability (availability of factors and knowledge to carry out the programs), and (4) cost (justification for programs in relation to required expenditures). This balancing of criteria must consider both the short-range and the long-range needs of the organization in light of the desired organization philosophy. Effective planning can, through anticipation, minimize the danger of unnecessary misunderstandings because of lack of information and confusion. It can lead to a program for the proper education of organization members in order to reduce the dangers

inherent in resistance to change and uncertainty. It can also lead to a better analysis and appraisal of those situations that may occur in a merger and that are disruptive to the integration process.

Such situations would include necessary terminations, reductions in status and/or rank, transfers, and changes in job content. The length and severity of disruption to the integration process will be directly proportional to how effectively these situations are faced and action taken.

The planning program (both short-range and long-range) should include:

(1) A determination of responsibility for carrying out the program
(2) A statement in adequate detail of the desired organizational philosophy
(3) A priority and scheduling for the accomplishment of the plans
(4) A determination of means for effectively and rapidly communicating to personnel the philosophy and how the merger affects them, and
(5) Criteria for measuring the success with which the plans are being achieved.
The Need for Organizing

In the organizing function of the merger, the concern is with creating and/or providing the basic conditions necessary for achieving the organizational mission. These conditions are created or provided by building the proper hierarchical relationships between functions, faculties, and physical factors of the environment. This involves an appraisal of the organizational structure of each of the prior organizations and the development of a new structure for the combined components. All the affected organizational positions should be well designed in terms of function and authority. Each individual should be aware of any change that will affect him directly or indirectly. This, of course, recalls previous discussions in which it was stressed that the philosophy of the new organization must be well communicated to all affected personnel.

126 Michael J. Jucius and William E. Schlender, Elements of Managerial Action (Homewood, Illinois: Richard D. Irwin, Inc., 1965), pp. 4-5. Organizing may be defined as "The managerial function of merging various factors and resources necessary to carry out the plans after they have been established. An organization's structure must be established by which various executives and subordinates will be coordinated. Procedures and systems must be established to carry out projects specified in the plans."

127 T. N. Flanagan, "Hidden Dangers in Mergers," Credit & Financial Management, May, 1962, p. 27. "Waste could be avoided if, before merging, a company made a management audit of its own key men and those in the other firm."
An attempt should also be made to gain active acceptance of all necessary changes.

The objectives of the organizing function are:

1. The effective achievement of the organizational mission
2. The achievement of greater effectiveness in the performance of functions
3. The reduction of subsequent expense of operations, and
4. The establishment of a climate conducive to maintenance or improvement of the level of morale.

It is important at the time of the merger that the organizing function be effectively performed so that achievement of the above objectives will be facilitated. This requires active acceptance on the part of all concerned personnel.

There is little problem if the structures of the two previous organizations are predominantly similar. However, where there are significant differences there will be difficulties that must be eliminated. Organizational positions in both firms should be evaluated to determine similarities and differences in job titles, duties, and level of authority. Also important is the determination of the techniques applied by each organization in the
application of line and line-and-staff concepts. Significant changes in position will require planning and adequate training and education programs, with special emphasis on changes in duties and/or levels of authority.

The Need for Control

A merger almost always creates a vigorously dynamic situation in which there is a great deal of uncertainty. Such a condition is fertile for the development of unforeseen problems. No matter how effectively the planning and organizing functions have been carried out, it is highly probable that unpredictable events will occur. The effect these events will have upon the attempt to integrate organizational interests is largely dependent upon the effectiveness with which the controlling function is carried out. The inadequate application of control can completely undermine organizational planning and organizing. Actually, all three functions, effectively applied, are prerequisites to an adequate attempt at integrating organizational interests.


129 Michael J. Jucius and William E. Schlender, Elements of Managerial Action, p. 5. Controlling may be defined as "the managerial function of regulating and restraining activities."
The objectives of controlling are to:

(1) Anticipate deviations from planned performance as rapidly as possible in order to minimize the effect of error through corrective action,
(2) Measure the adequacy of planning and organizing,
(3) Coordinate activity, and
(4) Regulate action in order to retain consistency.

The controlling function can be subdivided into components of performance in order to facilitate the achievement of these desired values. Figure 3 shows these sub-functions of control as depicted by R. C. Davis. The first four functions (routine planning, scheduling, preparation, and dispatching) are primarily staff activity and are completed prior to performance. Direction and supervision are line functions and proceed concurrently with performance. Comparison, a staff function, should be achieved as rapidly as possible (in terms of weighing time and cost factors) after performance. Corrective action, a line function, should then be performed.\(^{130}\)

The secret to controlling with economy and effectiveness lies in the ability with which the critical factors are determined. Over-control can be as wasteful and destructive as under-control. Control systems should be

\(^{130}\) See Chapter VI for application of the controlling function to the integration of organizational interests in mergers.
## Figure 3

### The Organic Functions of Control

<table>
<thead>
<tr>
<th>Performance</th>
<th>Execution</th>
<th>Control Subfunctions</th>
<th>Organizational Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Routine Planning: A secondary, routine provision of information concerning the plan.</td>
<td>X</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>Scheduling: The determination of when or at what rate the principal phases of the plan must be completed to meet the final time objective of the undertaking.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>Preparation: The function of assuring that the factors and conditions required for the execution of the plan will be available as needed.</td>
<td>X</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>Dispatching: The maintenance of coordination through control of the release of the authority to act.</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>Direction: The function of instruction concerning the requirements for proper execution of the plan.</td>
<td>X</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>Supervision: The function of assuring that current execution is taking place in accordance with plans and instructions.</td>
<td>X</td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>Comparison: The function of determining the degree of agreement between actual and planned results.</td>
<td>X</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>Corrective Action: The removal of interferences with planned execution and the restoration of effective, coordinated action.</td>
<td>X</td>
</tr>
</tbody>
</table>

established at strategic points which lend themselves to performance measurement. These points should readily indicate success (or the lack of it) critical to the completion of the integration of organizational interests mission. Ideally, this would include extensive controls at the top-management level to assure that management recognizes long-range needs while undergoing the current changes. This requires that management retain a balance in its short-range, intermediate-range, and long-range planning and organizing. The need for integration of organizational interests must be held in proper perspective to the other factors involved in achieving the organizational mission.

Controls should also be established at all levels of the new organization to facilitate measurement of personnel development and employee attitudes. These measurements will lend insight into how well personnel are accepting the new situation. They will help determine what additional action is necessary to minimize the potential and actual difficulties.

The Supporting Functions

Functions that are inherent in and support the organic management functions of planning, organizing, and controlling are:

(1) Investigation
(2) Decision-making
(3) Communications
(4) Integration of thought and action
(5) Facilitating, and
(6) Motivating.\textsuperscript{131}

In carrying out the organic functions, management must apply the supporting functions in terms of need. The law of the situation will determine the emphasis placed in any given circumstance.\textsuperscript{132} It is especially important in the merger situation that full emphasis be placed on these supporting functions due to the complexities involved.\textsuperscript{133}

Investigation involves an examination and analysis of all pertinent alternatives to the integration of organizational interests. This includes a recognition of all significant factors, forces, and relationships that are desired and an appraisal of effective means by which the desired results can be achieved. Investigation is, in fact, the effective application of the scientific method of problem-solving discussed in the previous section.

\textsuperscript{131}R. C. Davis. Taken from a management theory seminar, November 4, 1963.

\textsuperscript{132}See page 117 for definition of "law of the situation."

\textsuperscript{133}See Chapter VI for application of these supporting functions to the integration of organizational interests in mergers.
on planning. It is essential that planning, organizing, and controlling be carried out as a result of intensive investigation if the problems of integrating organizational interests are to be held to a minimum.

An inherent part of management is the responsibility for effective decision-making. In the merger situation, properly conceived and effectively applied decisions are essential. It is of utmost importance that management make intelligent decisions based upon courage and integrity, rather than on short-sighted expediency. Management decisions in a period of flux, such as that created by a merger, will carry special impact and can do a great deal toward accelerating the integration process.

Effective communication requires adequate reporting, exposure, and understanding to all affected personnel. All pertinent information that is not classified for organizational security reasons should be made available in order to reduce the threat of ill-advised rumor and gossip. It should also be remembered that the supporting function of communication involves retaining open lines both upward and downward through the organizational structure. Management should not only inform personnel but should itself attempt to stay informed of the feelings and attitudes of the employees.
Integration of thought and action is especially significant in the merger situation. It is not enough to say that all that is necessary is the integration of personnel. Actually, the integration of personnel is more an end than a means to an end. The means would include integration of ideas leading to unity of thought and action for the accomplishment of the mission. This requires the recognition of a sound philosophy, the communication of this philosophy, and the implementation of the philosophy. Only when there has been an integration in thought and action by all members of the organization can an optimum level of integration of organizational interests be achieved. Management must assist the progress of integrating organizational interests continuously.

Facilitation requires continuous evaluation of the programs to assure that all is proceeding in an effective manner. Management must also facilitate the process by setting an example compatible with the desired philosophy. An effective management is one that positively leads the way in a manner that stimulates and permeates others.

Finally, in carrying out the organic management functions of planning, organizing, and controlling, management must give continuous recognition to the need for motivating personnel toward achievement of the mission. This requires that management utilize incentive tools to
activate the employee toward positive accomplishment.134

These incentives can be tangible—for example, in the form of monetary reward—or intangible—for example, the instillation of pride of accomplishment in the employee.135

These six supporting functions, properly applied to planning, organizing, and controlling of the integration of organizational interests, increase the probabilities of rapidity of success. It should be remembered that management's attitudes and methods toward integration must be continuous over an extended period of time, for best results. Integration of organizational interests as an end will come about only if effective means have been applied. This requires that management recognize the need for a continuous

134 Myles L. Mace and George G. Montgomery, Jr., Management Problems of Corporate Acquisitions, p. 230. "Each organization acquired is composed of a unique combination of human and physical assets, and it is the job of the acquiring company management to motivate and administer the unique group to achieve the objectives which made the arrangement appear to be a good deal in the first place."

135 Closely related to motivation and a type of measurement of the willingness to be motivated is the level of morale. Morale may be defined as "the attitude of an individual or group resulting from a composite of conditions. This attitude determines how the individual or group relates to the organization, the degree to which leadership is accepted, and the extent of voluntary cooperation in creating the values necessary for the organization to accomplish its mission. The foundation of good morale must be an integration of interests of the individuals and groups with the interests of the organization." Notes on a paper submitted by Paul R. Stephenson in Management 834, March 9, 1964, The Ohio State University, to Professor Ralph C. Davis, p. iv.
program and that this program last until there is reasonable assurance that complete integration has been achieved.

**Summary**

After a discussion of empirical findings in the next chapter, Chapter VI will consider the establishment of a philosophy audit and a program to facilitate the integration of organizational interests.

The environment in which a business organization exists is a product of the interaction of the membership based upon the application of formal and informal organizational philosophies. If the organization is to maintain perspective and optimize performance, as measured by achievement of the organizational mission, the formal philosophy must prevail. Only under this circumstance will the climate conducive to coordination and cooperation in performance be achieved. Organizational flexibility and stability are essential to the continued growth of the firm. The ability to retain these attributes becomes especially critical in the merger situation and success will be measured mainly by the effectiveness with which management engages in planning, organizing, and controlling for the integration of organizational interests.

It is the responsibility of top management to carry out effectively the integration process and it must
necessarily be held accountable for the inability to do so. For this reason, top management must have the courage and integrity to make the necessary decisions leading to the successful integration of thought and action for the newly merged firm. Their decisions must pertain to the short-range and long-range in consideration to the necessary prerequisite of fulfilling the organizational mission. Every effort should be toward the unification of all members of the organization toward the accomplishment of this endeavor.
CHAPTER V
EMPIRICAL FINDINGS

Questionnaires were circulated among management consultants and among executives of recently merged firms for the purpose of determining their views on a number of merger issues. In short these issues were:

(1) To determine the extent to which firms recognize the integration of organizational interests as a fundamental problem in mergers, and the amount of time and effort that firms normally expend in accomplishing that integration;

(2) To ascertain potential ill effects resulting from not effectively integrating organizational interests in a formal manner;

(3) To determine if the organizational problems that develop in a merger are effects of the nature and/or size of the firms involved; and

(4) To develop an analysis of the fundamental issues and operations guidelines for the more effective integration of organizational interests in a merger situation.
Description of Questionnaires

The consultant questionnaire consisted of twenty-six questions.\textsuperscript{136} Most questions were open-ended in order to give the respondent an opportunity to expand or amend the alternatives offered in the question. The questionnaire circulated among presidents of recently merged firms included one section of three brief questions and a second section of fifteen questions.\textsuperscript{137} Most of the fifteen questions asked the corporate executives were repetitious of the questions asked the management consultants. As with the consultant questions, they were open-ended for the purpose of allowing amended responses.

Management Consultants. Questionnaires were sent to 238 management consultants. The consultants were chosen from three sources, as follows:

(1) The 1963 Directory of Consultants published by the American Management Association listing the names of over 700 consulting firms. Description of services offered and past experience of these firms was included. Only firms purporting to be in the field of general management services or indicating experience in merger consultation were chosen.

\textsuperscript{136}See Appendix A for consultant questionnaire.

\textsuperscript{137}See Appendix B for corporate president questionnaire.
This resulted in a total number of 183 consultants who had experience in the area under study.

(2) Directory of the Association of Consulting Management Engineers, from which a total of thirty-seven was taken after eliminating all duplications from the first source.

(3) The Advisory Board of the Management Services Magazine of the American Institute of Certified Public Accountants. The total in this group came to eighteen consultants.

Of the 238 questionnaires mailed, fifteen were returned because of improper address, and two were found to be duplications. This reduced the net population of the mailing to 221. Based upon an original mailing and a follow-up mailing, sixty-two complete responses were received, and twelve responded that they did not have adequate experience in the merger field. A third mailing was then made to check for the possibility of "non-response bias," and twenty replies were received.

Since the proportion of nonrespondents to a mailed questionnaire is almost certain to be very large, it is very important in mail surveys to know whether or not any nonresponse biases exist, and to know the direction and extent of any such biases which do exist. The only conceivable practical method of discovering and estimating nonresponse biases is to sample the universe of nonrespondents to the survey. While this
is still not always done, no survey which fails to take account of and, where possible, measure nonresponse bias, can be considered to have taken full advantage of the statistical techniques available.\(^\text{138}\)

Of these, seven responded completely to the questionnaire; nine indicated lack of experience in the merger area; three refused to answer, contending that it was impossible to generalize about merger situations. One was returned, as the consultant was deceased. The responses from the third mailing were found to yield results consistent with the first two.

Certain limitations should be recognized regarding the management-consultant questionnaire. In the first place, the questionnaire was designed so as to be fairly general in nature. This was necessary because of the diversity in experience found in a general population of management consultants. Many of the consultants had, for the most part, confined their experience to one or two types of industry. Nearly 50 per cent of the consultants were experienced in the general area of manufacturing, the remainder having a wide diversity of experience in many other areas. Second, the basic philosophy underlying the questioning of consultants was to draw from each expert

\(^{138}\)Alva M. Tuttle, *The Use of Statistical Techniques by Ohio Manufacturers* - Research Monograph Number 116 (Columbus, Ohio: Bureau of Business Research, The Ohio State University, 1963), p. 23.
testimony regarding his own conclusions, based upon the depth and breadth of his experience. Questions too specific in nature would have created an insurmountable barrier in terms of the variety of backgrounds and experience. This limitation is offset somewhat by the fact that data were also collected from other directions (i.e., recently merged corporations and case studies).

**Corporate Executives.** Questionnaires were mailed to the chief executive officer of 754 corporations that had undergone a merger or mergers during the period January, 1960, through June, 1964. The primary source for the merged corporations was the Conference Board Record Announcements of Mergers and Acquisitions for the period September, 1962, through February, 1964. All duplications were eliminated, and every attempt was made to screen out unqualifying acquisitions and mergers that were of no value to this study. Additional mergers in the railroad, insurance, and banking industries were determined from other sources - specifically, trade publications of these industries for the same approximate period of time. Prior to mailing the questionnaire, it was impossible to make a definite determination of the qualification of each firm contacted. Consequently, the first three questions of the corporation questionnaire were designed to eliminate firms that did not completely qualify. Three hundred responses were
received, of which 240 answered fully, and sixty disqualified themselves in the first three questions. A majority of the responses (67 per cent) was primarily in the manufacturing industry. The balance represented all the other industries contacted. Most of the respondents (88 per cent) were classed as large- or medium-sized industry, and only 12 per cent were classed as small. Of the respondents, only 26 per cent reported one merger within the past five years. All others had been involved in more than one merger during this time.

Again, as with the management consultants, it was necessary to generalize the questions somewhat. This was done in order to communicate effectively with all respondents. The primary purpose of the corporation questionnaires was comparison with the management-consultant response for points of similarity and difference.

Findings

Questionnaire responses will be reported and discussed as they pertain to each of the hypotheses under study. In those instances where similar questions were asked of management consultants and corporate presidents, the consensus of each will be compared and differences discussed.

Characteristics of Respondents. Responses were received from consultants and corporations whose industrial
experience was as shown in Table 2. The greatest field of experience among consultants was in manufacturing (47.5 per cent). Among corporations manufacturing also accounted for the majority of experience (67.2 per cent). Respondents comprising the balance of each area were fairly well dispersed among the remaining industrial classifications.

Table 3 shows the size of the business organizations with which consultants have had experience and the size of the corporations responding. The responses were almost evenly divided between large organizations (defined as over $25,000,000 in sales) and middle-sized organizations (defined as under $25,000,000 in sales but over $1,000,000). Small organization responses (defined as under $1,000,000 in sales) comprised only 12.9 per cent of consultant respondents and 12.5 per cent of corporate respondents.

Total consultant merger experiences reflected by the responses are:

- One or two .................. 9.8 per cent
- More than two but fewer than six 19.7 per cent
- More than five but fewer than ten 32.8 per cent
- More than ten ........................ 37.7 per cent

Following are total corporate merger experiences within the last five years:

- One merger ........................ 25.8 per cent
- Two mergers ........................ 23.6 per cent
- Three mergers ...................... 15.4 per cent
- Four mergers ....................... 11.6 per cent
- Five mergers ....................... 10.8 per cent
- More than five mergers ............ 12.8 per cent
TABLE 2

Industrial Experience of Respondents

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>Corporations Acquiring Firm Per Cent</th>
<th>Acquired Firm Per Cent</th>
<th>Consultants Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>67.2</td>
<td>68.8</td>
<td>47.5</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>8.9</td>
<td>9.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5.8</td>
<td>6.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Mining</td>
<td>4.6</td>
<td>2.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Transportation, Utilities, Communication</td>
<td>2.3</td>
<td>2.0</td>
<td>10.2</td>
</tr>
<tr>
<td>Finance, Insurance, Real Estate</td>
<td>1.5</td>
<td>2.0</td>
<td>11.9</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishing</td>
<td>.8</td>
<td>1.2</td>
<td>.8</td>
</tr>
<tr>
<td>Services</td>
<td>5.8</td>
<td>4.7</td>
<td>15.2</td>
</tr>
<tr>
<td>Publishing</td>
<td>1.9</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1.2</td>
<td>.8</td>
<td></td>
</tr>
<tr>
<td>Research and Development</td>
<td>-</td>
<td>-</td>
<td>.8</td>
</tr>
<tr>
<td>All of the Above</td>
<td>-</td>
<td>-</td>
<td>.8</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
TABLE 3

Industrial Experience of Respondents
(Size of Firms)

<table>
<thead>
<tr>
<th></th>
<th>Corporations Per cent</th>
<th>Consultants Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Organizations (over $25 million in sales)</td>
<td>43.8</td>
<td>46.8</td>
</tr>
<tr>
<td>Medium-sized Organizations (under $25 million in sales, but over $1 million)</td>
<td>43.8</td>
<td>43.5</td>
</tr>
<tr>
<td>Small Organizations (under $1 million in sales)</td>
<td>12.5</td>
<td>9.7</td>
</tr>
<tr>
<td>Totals</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Following is the indication of the corporate respondents of the year of their most significant merger, upon which they based their response:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>First half of 1964</td>
<td>16.8</td>
</tr>
<tr>
<td>1963</td>
<td>49.1</td>
</tr>
<tr>
<td>1962</td>
<td>23.3</td>
</tr>
<tr>
<td>1961</td>
<td>5.2</td>
</tr>
<tr>
<td>1960</td>
<td>5.6</td>
</tr>
</tbody>
</table>

Management consultants were asked to report reasons for the acquiring and the acquired company merging. The consensus of their response is shown in Table 4. The items listed are placed in order of importance based upon the ratings given each by the consultants.

Planning in Mergers

The questionnaires included a number of questions regarding the degree of planning that was attempted in merger situations. Various questions referred to different aspects of the planning function, including:

(1) Recognition of the need for planning;
(2) Factors involved in planning;
(3) The time element in planning;
(4) The effects of planning; and
(5) The responsibility for planning.

Recognition of the Need for Planning. The findings of management consultants from their responses indicate
### TABLE 4

Reasons for Merger  
(Consultant Response)

<table>
<thead>
<tr>
<th></th>
<th>Per cent of 100</th>
<th>Per cent Response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Important</td>
<td>Not Important</td>
</tr>
<tr>
<td><strong>A. Acquiring Company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Break into new marketing area</td>
<td>96.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Improve profit position</td>
<td>95.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Acquire management talent</td>
<td>91.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Acquire valuable patents and processes</td>
<td>81.1</td>
<td>18.9</td>
</tr>
<tr>
<td>Increase financial strength</td>
<td>75.8</td>
<td>24.2</td>
</tr>
<tr>
<td>Acquire manufacturing knowhow</td>
<td>72.8</td>
<td>27.2</td>
</tr>
<tr>
<td>Urge to be big</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Growth</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Business strategy</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Tax reasons</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Status and prestige</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>B. Acquired Company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desire of owners to withdraw</td>
<td>96.7</td>
<td>3.3</td>
</tr>
<tr>
<td>Need for additional capital</td>
<td>95.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Poor management</td>
<td>81.4</td>
<td>18.6</td>
</tr>
<tr>
<td>Need for improved technology</td>
<td>66.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Pressure of acquiring company</td>
<td>35.6</td>
<td>64.4</td>
</tr>
<tr>
<td>Heavy tax loss</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Declining profits</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Declining market share</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Diversify personal investment</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Need for integration</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Capital gain</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

* Additional responses offered by consultants. However, since response was partial, no percentages are shown.
that, as a general rule, the integration of organizational interests in merged firms has not been adequately planned. Based upon their experience, 57.4 per cent stated that less than 34 per cent of the mergers had been adequately planned, and 86.9 per cent stated that less than 67 per cent of the merger situations that they had been involved in had been adequately planned. Only 3.3 per cent reported adequate planning in all of their merger experience. In a similar question, management consultants and corporate presidents were asked if, when two companies are contemplating a merger, any attempt was normally made to predict the future compatibility of the organizational interests of the separate firms. Three and three-tenths per cent of the management consultants reported that a thorough investigation, analysis, and evaluation is normally made. Twenty-one and seven-tenths per cent reported that a formal attempt is normally made, but in an incomplete manner, and the balance of 75 per cent stated that usually only an informal attempt is made, if any attempt is made at all. The corporation presidents' response to the same question differed somewhat from that of the management consultants. Forty and six-tenths per cent reported that a thorough investigation, analysis, and evaluation was made; 13.2 per cent reported a formal attempt was made, but in an incomplete way; and 47 per cent contended that either no attempt or only an
informal attempt was made to recognize future compatibility of organizational interests prior to the merger.

The fact that only 3.3 per cent of the consultants reported thorough investigation, analysis, and evaluation, whereas 40.6 per cent of the corporate presidents did so, shows a significant difference that can be partially explained as follows:

1. In many instances consultants enter the picture only after difficulties have occurred. Therefore, their experience often is different from that of corporate presidents of firms that have not encountered difficulties.

2. The interpretation of the future compatibility question may have differed between the two populations; the consultants considered it in terms of results, and the corporate presidents considered it from the standpoint of having made at least an informal attempt.

3. There is a relationship between time distance of the merger and the responses given. Those most recently merged had a greater tendency to answer positively with the statement that a thorough investigation, analysis, and evaluation was made, as compared to those who had been in the merger experience for a longer period of time. Since this is one of the most significant findings that has come from the research, more time will be devoted to a thorough discussion of it at a later point.
Factors Involved in Planning. The respondents were asked to rate in importance each of a number of possible factors involved in establishing a plan for the integration of organizational interests in a merger. They were also given space to add any factors they considered significant that were not included in the list. Table 5 shows the results of these responses from management consultants and corporate presidents regarding each of the factors measured.

A finding of some significance herein is the difference in importance given each of these factors by the two groups of respondents. For example, in all cases the consultants considered objectives to be important, whereas, 13.6 per cent of the corporate presidents considered objectives to be of only minor importance. Also, the consultants as a group considered procedures and technical process to be far less important than did the corporate presidents. This reflects the tendency of corporate presidents to put stronger emphasis on the practical, tangible factors. It also indicates less insight on their part in consideration to the complex, intangible organizational factors. The consultants tended to look more at the overall system. The corporate presidents were more interested in the practical aspects of parts of the system. It should be pointed out that the differences in the responses of the consultants and the corporate presidents, as reflected in
### TABLE 5

Importance of Various Factors in Planning

<table>
<thead>
<tr>
<th></th>
<th>Per cent of 100</th>
<th>Per cent Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corporations</td>
<td>Important</td>
</tr>
<tr>
<td><strong>Business philosophy</strong></td>
<td>82.9</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Organization structure</strong></td>
<td>76.1</td>
<td>23.9</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>86.4</td>
<td>13.6</td>
</tr>
<tr>
<td><strong>Policies</strong></td>
<td>84.4</td>
<td>15.6</td>
</tr>
<tr>
<td><strong>Executive leadership</strong></td>
<td>87.8</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Procedures</strong></td>
<td>61.0</td>
<td>39.0</td>
</tr>
<tr>
<td><strong>Technical processes</strong></td>
<td>65.3</td>
<td>34.7</td>
</tr>
<tr>
<td><strong>Personnel</strong></td>
<td>87.1</td>
<td>12.9</td>
</tr>
<tr>
<td><strong>Management methods</strong></td>
<td>78.3</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Product compatibility</strong></td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>Public relations</strong></td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td><strong>Cost reduction</strong></td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

*Additional responses offered. However, since response was partial, no percentages are shown.*
Table 5, are based upon the reflections of all the consultant responses, but on only 52.9 per cent of the corporate president responses. The other 47.1 per cent of the corporate presidents indicated that they had not established any formal plan for the integration of organizational interests. If it can be inferred from this response that they considered such a plan to be of small importance, then presumably an extension of this philosophy would indicate that they would have rated each of these factors to be of small importance. Such an extension would result in over half the corporate presidents reporting that each of the factors measured was of little importance in planning for the integration of organizational interests. At this point, it becomes fairly obvious why so much has been published in the literature regarding the disillusionment of management after a merger has been consummated. It is somewhat disappointing that 6.7 per cent of management consultants consider consideration of business philosophy to be of minor significance. The fact that over 50 per cent of the corporate presidents imply the same view is completely astonishing.

The purpose of another question was to determine the consensus of the degree of difficulty in consummating a merger under alternative sets of circumstances. To this end, consultants and corporate presidents were asked to
evaluate potential problems under differing situations. The results of these findings are shown in Table 6. The question directed to corporate presidents was an abbreviated form of that asked the consultants. Except in the cases of the acquiring company handicapped by poor leadership or poor morale, the consensus on the part of both groups was that, although the problem might be a real one, it was solvable. Even in these two cases, over 75 per cent in each group reported a real but solvable problem.

**Time Factor in Integration of Interests.** Management consultants were asked how rapidly they felt integration of organizational interests should be completed in a merger situation. The opinion of the group was fairly evenly split, in that 45.2 per cent felt that integration should occur rapidly (within one year); 43.5 per cent felt that it should take more than one year; and 11.3 per cent said it would depend almost entirely on the given merger situation. Coupled with this question, the management consultants and the corporate presidents were asked how long they felt it would take to resolve major integration of organizational interests problems that develop in merger situations. The responses of these two groups are given in Table 7. It is interesting to note that 22.6 per cent of management consultants felt that problems usually linger and affect
TABLE 6

Response to Difficulty of Consummating a Merger under Various Circumstances

<table>
<thead>
<tr>
<th>Acquiring Company</th>
<th>Acquired Company</th>
<th>Per cent of 100 per cent Response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No Major Problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporations</td>
</tr>
<tr>
<td>Policy of centralized control</td>
<td>Policy of decentralized control</td>
<td>29.0</td>
</tr>
<tr>
<td>Policy of decentralized control</td>
<td>Policy of centralized control</td>
<td>41.8</td>
</tr>
<tr>
<td>Excellent leadership</td>
<td>Poor leadership</td>
<td>42.6</td>
</tr>
<tr>
<td>Poor leadership</td>
<td>Excellent leadership</td>
<td>12.3</td>
</tr>
<tr>
<td>Good morale</td>
<td>Poor morale</td>
<td>34.7</td>
</tr>
<tr>
<td>Poor morale</td>
<td>Good morale</td>
<td>17.3</td>
</tr>
<tr>
<td>Activity geographically centralized</td>
<td>Activity geographically decentralized</td>
<td>*</td>
</tr>
<tr>
<td>Activity geographically decentralized</td>
<td>Activity geographically centralized</td>
<td>*</td>
</tr>
<tr>
<td>Acquiring Company</td>
<td>Acquired Company</td>
<td>Per cent of 100 per cent Response</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No Major Problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporations</td>
</tr>
<tr>
<td>Multi-line business</td>
<td>Specialty business</td>
<td>*</td>
</tr>
<tr>
<td>Specialty business</td>
<td>Multi-line business</td>
<td>*</td>
</tr>
<tr>
<td>Primarily manufacturing</td>
<td>Primarily marketing</td>
<td>*</td>
</tr>
<tr>
<td>Primarily marketing</td>
<td>Primarily manufacturing</td>
<td>*</td>
</tr>
</tbody>
</table>

*No response requested.*
### TABLE 7

**Period of Time Required to Resolve Integration of Interests Problems**

<table>
<thead>
<tr>
<th>Problems</th>
<th>Corporations Per cent</th>
<th>Consultants Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problems usually resolved within six months after merger</td>
<td>32.2</td>
<td>11.3</td>
</tr>
<tr>
<td>Problems usually take two years to resolve</td>
<td>58.8</td>
<td>64.5</td>
</tr>
<tr>
<td>Problems usually linger more than two years</td>
<td>8.0</td>
<td>22.6</td>
</tr>
<tr>
<td>Depends on situation</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
operations for more than two years; whereas only 8 per cent of the corporate presidents held the same opinion. This would indicate that the corporate presidents are, to some extent, less aware of the existence over a long period of time of some after-merger difficulties. That is, organizational problems may not be recognized as having stemmed from the merger situation. This is further substantiated by the fact that only 11.3 per cent of the management consultants felt that merger problems could be resolved within six months; whereas, 32.2 per cent of the corporate presidents held this belief. A major portion of the corporate presidents who answered that these problems could be resolved with a six-month period had reported in another question that their most significant merger was relatively recent in origin (that is, within the last year and a half). In other words, two-thirds of the corporate presidents who felt that problems were of a relatively short duration had not been involved in a merger situation long enough to be sure that this was the case.

Effect of Planning. Consultants were asked whether planning leads to more rapid integration of organizational interests. All but one respondent (that is, 98.3 per cent) felt that it definitely did. They were also asked if planning leads to more or less administrative management compatibility. Eighty-one and seven-tenths per cent
responded that they felt that it did induce greater compatibility, and 18.3 per cent thought that it had no effect on administrative management compatibility. Evidently, at least some of the consultants felt that no matter what was done formally, there would be some conflict in some mergers between top administrative management.

Responsibility for Planning in Mergers. Consultants were asked which groups normally played an important part in influencing the merger decision in both the acquiring and the acquired company. In order of significance, they felt that the following groups played a prominent role in both companies: top management, board of directors, stockholders, and bankers. Other groups that might be prominent under certain circumstances, but generally were not, were some governmental agencies, middle management, customers, labor unions, and operative employees.

The majority of the consultants felt that when there were lingering integration-of-interests problems in a merger, the corporate executives were usually at fault. However, they thought that some blame could fall to middle management in causing the difficulties to linger. It was believed that only rarely would lower management or operatives be the direct cause of lingering after-merger difficulties.
The majority of the management consultants (65.6 per cent) and corporate executives (55.2 per cent) fixed the responsibility for integrating organizational interests of the two firms on combined management from both organizations. All other respondents believed that the responsibility should rest in the hands of the acquiring organization. It was also the majority's opinion that as a result of most mergers, the organizations will tend to reflect the nature of the acquiring company or to take on a new face somewhat different from either one of the previous companies. This was the view of 87.1 per cent of the management consultants and 82.7 per cent of the corporate presidents.

Results of Inadequate Planning for Integration of Interests in Mergers

Management consultants and corporate presidents were questioned regarding their views as to what would occur after a merger under varying sets of conditions. Specifically, they were asked reasons why problems occur, potential effects of a merger, and reasons for personnel terminations.

Reasons for Integration of Interests Problems. Consultants were asked to relate their experience regarding the causes of lingering after-merger difficulties. Their responses were:

(1) Lack of planning in regard to integration of
structure, objectives, policies, procedures, etc.;

(2) Inability of management to cope with the new situation;

(3) Inability of employees to adjust to the new situation;

(4) No formal attempt to integrate the management philosophies of the two organizations;

(5) Lack of decisive leadership action;

(6) Poor communication; and

(7) Threat to personnel security.

Several respondents went on to say that most of these causes should be readily foreseen, but in many instances are not.

Consultants were then asked to grade management as to the effectiveness with which they communicate the news of a merger to employees. Regarding communication to the employees of the acquiring company, 18.7 per cent felt that communication was usually quite effective; 37.3 per cent felt that it could be better; and 44.1 per cent considered the communication to be generally ineffective. In regard to the employees of the acquired company, 10.2 per cent felt that communication was usually quite effective; 23.7 per cent felt that it could be better; and 66.1 per cent felt that it was generally ineffective. From these results it can be readily seen that consultants are of the opinion
that communication is normally more effective to employees of the acquiring company than to those of the acquired company. The important point here is the responses reflect the belief that merger news is not communicated as effectively as it should be by most organizations. As pointed out previously, this is one of the causes for some difficulties occurring in the integration of organizational interests.

Potential Effects of a Merger. Management consultants and corporate presidents were asked to rate each of several possible conditions that could develop after a merger. Both groups agreed by a large majority that there would be curiosity as to future events. Over two-thirds of the consultants further stipulated that there would be a period of alarm and confusion. Only 11 per cent of the corporate presidents shared this view. The other one-third of the consultants felt that there would be some initial confusion, normally of a short duration with a minor effect on activity; whereas, only 24 per cent of the corporation presidents held this view. The consultants also rated political maneuvering and fear of personal security as important possible conditions found after mergers, but these effects were not indicated by the corporate presidents.
The consultants were also asked to predict probable after effects upon personnel of the acquired organization, and their consensus was as follows:

(1) Insecurity based upon fear of loss of job or status - 55 per cent;
(2) A wait-and-see attitude - 30 per cent;
(3) A feeling of greater personal opportunity as a result of the merger - 15 per cent.

There was overwhelming consensus by consultants that in those situations where no formal attempt is made to integrate the organizational interests of merged units that there is resultant intrigue and politics, bickering among employees, and voluntary and involuntary terminations. About 10 per cent of the respondents felt that no formal attempt to integrate organizational interests would lead directly to loss of market share and decreasing profits.

Consultants were asked to predict the level of morale for both the acquiring organization and the acquired organization in the period just prior to the merger, immediately after the merger, and one year later. The results are reflected in Table 8. It is obvious from these responses that consultants agree that a merger may have a far greater negative effect upon personnel of the acquired company. However, it should not be overlooked that more than 10 per
### TABLE 8

**Level of Morale Predictions Where No Formal Program for the Integrating of Organizational Interests Exists**  
*(Consultant Response)*

<table>
<thead>
<tr>
<th></th>
<th>In the Acquiring Company (Per cent)</th>
<th>In the Acquired Company (Per Cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to the merger morale will tend to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remain constant</td>
<td>35.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Increase</td>
<td>38.3</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>11.7</td>
<td>81.7</td>
</tr>
<tr>
<td>Cannot determine</td>
<td>15.0</td>
<td>16.6</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Immediately after the merger morale will tend to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remain constant</td>
<td>36.2</td>
<td>8.6</td>
</tr>
<tr>
<td>Increase</td>
<td>31.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Decrease</td>
<td>17.2</td>
<td>69.0</td>
</tr>
<tr>
<td>Cannot determine</td>
<td>15.6</td>
<td>19.0</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>One year later morale will tend to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remain constant</td>
<td>39.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Increase</td>
<td>22.4</td>
<td>31.0</td>
</tr>
<tr>
<td>Decrease</td>
<td>12.1</td>
<td>27.7</td>
</tr>
<tr>
<td>Cannot determine</td>
<td>25.9</td>
<td>37.9</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
cent of the respondents predict morale problems with personnel of the acquiring company, as well.

**Reasons for Terminations.** Corporate presidents reported that in approximately 50 per cent of mergers in which it was planned not to terminate personnel, terminations later became necessary. It is interesting to note that of the approximate 50 per cent that have not had any terminations, two-thirds of these have merged in the last year under study. There seems to be a correlation between length of time after the merger and the necessity for terminations. This is depicted in the graph shown in Figure 4. Evidently, in many instances the decision to make terminations takes a relatively long period of time. Tables 9 and 10 show the reasons for terminations on both voluntary and involuntary bases for both the acquiring and the acquired company. These are ranked in order of importance as reported by the respondents.

**Value of Planning for the Integration of Organizational Interests**

Consultants were asked whether a formal audit of management philosophies of the two merging firms would be of value. Eighty and three-tenths per cent indicated that it should be done; 16.4 per cent indicated that it would not be practical to do; and 3.3 per cent indicated that it
FIGURE 4

Per Cent of Corporations Reporting Each Period Originally Not Planning to Terminate That Have Since Terminated Personnel
### TABLE 9

Reasons for Management Turnover in Acquired Company
Attributable to Merger

<table>
<thead>
<tr>
<th>Reason</th>
<th>Per cent of Respondents Considering Reason Important*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corporations</td>
</tr>
<tr>
<td>Incompetent</td>
<td>55.4</td>
</tr>
<tr>
<td>Resistance to change</td>
<td>40.3</td>
</tr>
<tr>
<td>Age</td>
<td>27.1</td>
</tr>
<tr>
<td>Job eliminated or reduced</td>
<td>17.8</td>
</tr>
<tr>
<td>Excessive salaries</td>
<td>2.3</td>
</tr>
<tr>
<td>Presumed incompetent</td>
<td>-</td>
</tr>
<tr>
<td>Assure inside control</td>
<td>-</td>
</tr>
<tr>
<td>Poor communications</td>
<td>-</td>
</tr>
<tr>
<td>Nepotism</td>
<td>0.8</td>
</tr>
</tbody>
</table>

*All consultants responded to this question. 53.8 per cent of the corporate executives also responded. Of the remainder (46.2 per cent), 7.5 per cent of the corporate executives gave no response and 38.7 per cent had not had turnover. Of the 38.7 per cent not having turnover, 61.3 per cent merged in the last year of the five-year period under study. In other words, after the first year only 15 per cent of the firms did not have turnover attributable to the merger."
TABLE 10

Rank Order of Importance--Reasons for Managerial Turnover
(Consultant Responses)

<table>
<thead>
<tr>
<th></th>
<th>Rank Order of Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquiring Company</td>
</tr>
<tr>
<td>A. Involuntary Turnover (Termination)</td>
<td></td>
</tr>
<tr>
<td>Incompetent</td>
<td>1</td>
</tr>
<tr>
<td>Resistance to Change</td>
<td>2</td>
</tr>
<tr>
<td>Job Eliminated</td>
<td>3</td>
</tr>
<tr>
<td>Inability to Communicate</td>
<td>4</td>
</tr>
<tr>
<td>Age</td>
<td>5</td>
</tr>
<tr>
<td>Presumed Incompetent</td>
<td>*</td>
</tr>
<tr>
<td>Assure Inside Control</td>
<td>*</td>
</tr>
<tr>
<td>B. Voluntary Turnover (Resignation)</td>
<td></td>
</tr>
<tr>
<td>Appearance of less opportunity</td>
<td>1</td>
</tr>
<tr>
<td>Resistance to Change</td>
<td>2</td>
</tr>
<tr>
<td>Reduction in Status, Security</td>
<td>3</td>
</tr>
<tr>
<td>Anticipated Replacement</td>
<td>4</td>
</tr>
<tr>
<td>Disagree with Merger</td>
<td>5</td>
</tr>
<tr>
<td>Age</td>
<td>6</td>
</tr>
<tr>
<td>Overworked</td>
<td>7</td>
</tr>
<tr>
<td>Confusion and Lost Feeling</td>
<td>8</td>
</tr>
</tbody>
</table>

*No rating.*
was not necessary because the philosophy of the acquiring company would survive anyway.

Consultants and corporate executives were asked if most integration-of-organizational-interests problems could be anticipated and preventative action taken. Eleven and three-tenths per cent of the consultants said they could be; 87.1 per cent reported that at least some of them could be; and 1.6 per cent felt that little or nothing could be done to anticipate these problems. Forty-six per cent of the corporate presidents felt that they could be anticipated; 42.2 per cent felt that at least some of them could be anticipated; and 11.8 per cent felt that little or nothing could be done to anticipate integration-of-organizational-interests problems. Here, as in almost all of the questions, there seems to be a significant difference of opinion between management consultants and corporate presidents, with the corporate presidents generally taking a more optimistic attitude than the consultants.

**Corporate Post-Merger Organizational Problems.** Corporation executives were asked to indicate the severity of problems they have experienced since their mergers. Ten and one-tenth per cent of the respondents admitted severe problems attributable to the merger; 66 per cent recognized having had organizational problems but stipulated that they had corrected them; and 23.9 per cent contended that they
had had no organizational problems since the merger. The responses to this particular question showed a definite internal inconsistency with responses to other questions in the questionnaire. For example, of the 214 reporting little or no difficulty in correcting organizational problems that have developed since the merger, 108 reported at another point that they had not anticipated most problems and corrective action had not been effectively taken. Also of this 214, 104 reported that they had made no formal plan for the integration of interests. This indicated that there was some confusion regarding this particular question. It is obvious in comparing this question with others, that executives considered problems that have since been corrected not to have been material. This must be subject to question, however, because these same organizations reported the need to later terminate personnel that they had previously planned to retain.

Responses Compared with Nature and Size of Firms

All data from the corporation questionnaires were examined by industrial classification to determine whether the type of industry made a difference in response. No significant differences were found. The responses were dominated by manufacturing concerns, but those in other
classifications did not differ materially in their response distribution.

Table 11 reflects a sample of responses based upon firm size. The finding of significance in analyzing firms by size is that a greater percentage of the smaller firms had no organizational interest problems since the merger, and less reported the need to terminate personnel because of incompetency and resistance to change. Possibly this is the result of the reduced levels of communication in the organization and the greater ease with which interaction can be accomplished. Except in this one area, size does not seem to place a material effect on the form of the corporate executive responses.

Divergent Opinions

There were some among the corporate consultants (four respondents) who felt that it would be impossible to respond to the questionnaire. This study would be amiss not to give full disclosure to these views, as they were communicated with a great deal of thought and consideration by the respondents. The general view among these four was that every merger offers a unique situation and, for this reason, general statements regarding integration of organizational interests in mergers cannot be made. Typical of the comments made was that "it is impossible to typify merger
TABLE 11
Sample of Responses Based Upon Firm Size

<table>
<thead>
<tr>
<th>Per cent of Firms Reporting</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>A thorough investigation, analysis, and evaluation was made prior to the merger in an attempt to predict the compatibility of the organizational interests.</td>
<td>43.3</td>
<td>34.6</td>
<td>45.1</td>
</tr>
<tr>
<td>Most integration of organizational interest problems easily resolved.</td>
<td>51.7</td>
<td>40.4</td>
<td>50.0</td>
</tr>
<tr>
<td>No organizational problems since the merger.</td>
<td>44.8</td>
<td>16.2</td>
<td>25.0</td>
</tr>
<tr>
<td>Established a formal plan for the integration of organizational interests.</td>
<td>53.3</td>
<td>46.6</td>
<td>59.0</td>
</tr>
<tr>
<td>New organization tends to reflect the nature of the acquiring firm.</td>
<td>55.2</td>
<td>73.2</td>
<td>65.0</td>
</tr>
<tr>
<td>Combined management of both firms were responsible for planning for the integration of organizational interests.</td>
<td>50.0</td>
<td>46.6</td>
<td>64.1</td>
</tr>
<tr>
<td>Integration of organizational interest problems that develop in mergers may be resolved within:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 months</td>
<td>36.7</td>
<td>36.3</td>
<td>25.5</td>
</tr>
<tr>
<td>2 years</td>
<td>53.3</td>
<td>55.9</td>
<td>63.7</td>
</tr>
<tr>
<td>Firms reporting acquired company terminations report terminations due to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incompetence</td>
<td>20.0</td>
<td>97.3</td>
<td>57.4</td>
</tr>
<tr>
<td>Retirement</td>
<td>20.0</td>
<td>37.9</td>
<td>31.5</td>
</tr>
<tr>
<td>Resistance to change</td>
<td>10.0</td>
<td>97.3</td>
<td>24.1</td>
</tr>
<tr>
<td>Duplication of effort</td>
<td>15.0</td>
<td>32.4</td>
<td>14.8</td>
</tr>
</tbody>
</table>
problems and supply meaningful answers," and that "there are so many variables involved with almost any merger or acquisition being of a different type, that any study of this nature would have to be validated by many specific depth interviews which could result in the study's lacking a cohesive note." Further, one respondent felt that "the questions and the design seem to me so naive--so oversimplified--as to not warrant time for response."

It is recognized that using the questionnaire form of response is not without its faults. It is difficult, as indeed this was, to prepare a questionnaire for professional consultants with a wide diversification in breadth and depth of experience on a subject as complex as this. The questionnaire was designed to reach all consulting firms with merger experience, and thus, by necessity, required questions somewhat general in nature. However, all questions were open-ended, leaving opportunity for the consultant to reflect his particular experience--as many did--if it differed from that of the alternatives offered. The responses, in points of agreement and in points of disagreement, gave a great deal of valuable insight into the matter under study. The reader should remember that consultant testimony was one source of data and was supported by data derived from four other sources--questionnaires to corporate executives of recently merged firms, depth interviews with executives of recently
merged firms, prior case studies of mergers, and secondary research material. The fact that all sources do not agree on some points gives valuable insight into obvious problem areas which require further study.

**Depth Interview Results**

Depth interviews were performed with seventeen executives that had been involved in mergers within the past five years. These executives had the following characteristics:

- Member of acquiring firm (still employed) ........ 7
- Member of acquiring firm (no longer employed) ... 2
- Member of acquired firm (still employed) .......... 4
- Member of acquired firm (no longer employed) .... 4

Nine of the firms interviewed are in manufacturing and one in banking. Four of the manufacturing firms are integrated vertically to the wholesale and/or retail levels of distribution. Only two of the firms interviewed have not had unexpected turnover. Both of these were merged in 1964. An interview averaging about one hour was held with one executive of each of nine firms. Eight persons were interviewed in the remaining firm. The executives interviewed were corporate presidents (4), executive vice-presidents (1), financial vice-presidents (3), vice-presidents marketing (2), vice-presidents manufacturing (1), personnel directors (2), controllers (2), and office managers (2).\(^{139}\)

\(^{139}\)These were titles at time of mergers.
All those interviewed that are still employed were asked to first respond to the questionnaire that had been distributed to corporate executives. Their response was compared to the responses previously reported in this chapter and were found to be similar. Eight of the firms had done little of significance to formally plan for the integration of organizational interests. One recognized severe problems attributable to the merger. The others said that there were unforeseen problems but they had been able to cope with them when they occurred. In all but one instance the interviewees indicated that an attempt was made to allow management from both organizations to participate in the reorganization. Six agreed that, in fact, the acquiring firm management dominated in the reorganization process.

All the persons no longer employed by the merged firm (all were from one firm) blamed the merger and subsequent poor management for their termination. Four had actively sought and found equivalent or better employment. The two who were involuntarily terminated are now in business for

---

Two of these responded that they had on the questionnaire, but upon closer discussion recognized that they actually had not.

Typical solutions involved correction of misunderstandings, reassurance to personnel, transfer of personnel, retirement of personnel, termination of personnel, change of job content, and promotion.
themselves on a relatively small, however successful, basis (each is in a separate business). Five felt that they would probably still be employed by their former employer if the merger had not occurred. Four had stayed with the merged firm for more than one year after the merger (two for more than two years).

The most significant finding that came from the depth interviews was that only four interviewees had a clear understanding of the term, "management philosophy," and the factors involved in a sound philosophy. Most of the others were not clear about various points in the discussion in this area. Some stated that "textbook theory is fine in the classroom but seldom can be applied in the urgency of a practical situation." Three had never given any real thought to the objectives of their organization. Four recognized a system of objectives along the lines of those discussed in Chapter II.

Case Study

This study pertains to a merger consummated in 1960, in which an insignificant amount of time or effort was put into an attempt to formalize a plan for the integration of organizational interests. The stated purpose of the merger was to combine a financially strong organization that had over fifty years' experience with a highly profitable
organization that had existed for about ten years. It was hoped that the combination of financial stability and dynamic, aggressive leadership would add value to the combined group over what each could achieve individually.

For more than two years after the merger, the results were completely reversed from those that had been hoped for. First, both organizations, which had been individually profitable, sustained substantial operating losses after the merger. Second, the dynamic leadership that was considered so desirable in a newer organization, had, for the most part, gone on to greener pastures, either on a voluntary or involuntary basis.

A questionnaire was submitted to members of the merged organization about two years after the merger, with no identification of responses except as to whether the respondent had previously been with one organization or the other. The results indicated that members from each of the previous organizations were continuing to function as separate groups according to their previous organizational affiliation. At the time of the questionnaire there had not as yet been an integration of organizational interests.

The general conclusion of the study was that the executive leadership of the acquiring firm did, in fact, perform in opposition to their stated merger objectives. Rather than integrating organizational interests, they
acted in a manner that smothered the executive leadership of the acquired firm. The new firm was kept in a state of constant flux with frequent reorganizations. Many things were done with incomplete information on the spur of the moment without effective planning, organizing, or controlling. Personal objectives of individual executives were allowed to take precedence over organizational objectives. Today, five years later, corrective measures are being taken, but the results of the ill-defined and poorly accomplished merger are still being felt by the organization.142

Summary of Results

The findings from all empirical sources generally support the following conclusions:

(1) There is a great lack of recognition of the need to integrate organizational interests as a fundamental problem in mergers;

(2) A majority of firms spend a minimum of time and effort in planning for the formal accomplishment of integration of organizational interests;

(3) Communications in merger situations are lacking, especially toward the personnel of the acquired company;

(4) Improper integration usually has a negative

142 See Appendix C for the entire case study.
effect on the level of morale. This is normally more critical for members of the acquired firm;

(5) A good many corporate executives are not adequately familiar with the concept of management philosophy and all of the important factors inherent therein;

(6) As a result of mergers there is a great deal of turnover that had not been anticipated or planned for;

(7) The period immediately surrounding a merger, in many cases, is one in which politics, confusion, and alarm are at a serious level;

(8) The predominant causes for merger turnover are reported as incompetence and resistance to change. Retirement and elimination of jobs are of secondary importance;

(9) The majority of respondents believe that integration of organizational interests problems will require at least a two-year period for complete resolution;

(10) Unexpected turnover generally can wait a year or longer after the merger to occur;

(11) The response was not affected by the nature of the firm;

(12) Small firms seem to be able to adapt more readily to the merger and integration of organizational interests than medium-sized and large firms.

It is concluded that the data generally support the hypotheses of this study. That:
(1) In a merger situation, as a general rule, a minimum of time and effort is formally expended in attempting to integrate the components into a cohesive group;

(2) The lack of consideration to formal integration of components normally results in a period of inefficiency, inadequate control, excessive conflict, reduced level of morale, and commensurate personnel problems and turnover that could otherwise be minimized or completely avoided;

(3) More effective planning and organizing of organizational components, coupled with an extensive audit of the management philosophy of the components, should lead to an integration of interests with greater economy and effectiveness.
CHAPTER VI

A PROGRAM FOR INTEGRATION OF ORGANIZATIONAL INTERESTS

The intent of this chapter is to apply what has preceded to a program for the integration of organizational interests. The program is general in nature and will require specific adaptation to any firm applying it. This is done because every merger is somewhat unique and requires consideration to certain specific aspects before adaptation can be performed. Prime aspects would include a determination of (1) the specific integration mission of the merger, (2) the degree of compatibility of the two firms in regard to their management philosophies, (3) the limiting factors inherent in the situation, and (4) the size of firms being integrated. Each of these will be discussed prior to entering into the discussion of a program.

Prerequisites to Program Determination

Each of the prime aspects should be considered fully prior to entering into a program for the integration of organizational interests. To do otherwise would leave the
program on shaky footing and reduce the probabilities of successful application. 143

The Merger Mission

Responsible executive leadership should make a formal determination of the desired purposes of this merger. 144 This would include consideration to both the acquiring company and the acquired company, since each has desired objectives. 145 Once the objectives of the merger have been established, questions can be asked which will affect the direction of the integration program. These would include:

1. What degree of autonomy will be retained between the two groups?
   A. Complete integration of personnel and facilities?
   B. Partial integration of personnel and/or facilities?
   C. Integration at only the top levels of management?

143 John Perry, "What Happens After the Merger," Management Review (reprint), April, 1962. "People are not unified by placing them in the same room or in the same box of an organization chart. They are unified only when they feel the sense of unity, and this occurs only when they recognize some common threat, need or goal."

144 See Table 4 in Chapter V, "Reasons for Merger," as a starting point in determining purpose.

145 To do otherwise would not be in good faith and would be disruptive to the integration climate.
(2) Will the degree of centralization of authority be greater than, equal to, or less than before for:
A. The acquiring company?
B. The acquired company?

(3) Will there be a change in definition of organizational positions (for either firm) creating:
A. Change in title?
B. Change in authority?
C. Change in job content?
D. Change in status (at least a probability of presumed change in status)?
E. Change in remuneration?
F. Change in security?

(4) Will there be a change in relationship among personnel (consider all organizational levels)?
A. Transfers (geographic and/or position?)
B. Combinations?
C. Terminations?
D. Retirement?
E. Change in supervisors?

In light of the desired merger mission, each of these questions should be answered in as much detail as is possible.
The answers to these questions will go a long way toward predicting points of potential integration conflict.

The Degree of Compatability of Philosophies

The important aspects of the management philosophies of the two firms should be compared even before the merger. General agreement as to how any important philosophy differences are to be resolved should be reached as rapidly as is possible. If this is not done, future impasses may develop, leading to serious consequences. Among the more important questions which should be resolved regarding management philosophies are:

1. What are the missions of each organization in terms of the objectives, influences over the objectives, and criteria for measuring objective accomplishment?
   A. Are they clearly defined?
   B. What are the points of conflict, agreement?
   C. Can points of conflict be resolved and how?
   D. What objective is considered primary; which are secondary; and which are collateral?

146 See Chapter II (specifically Figure 1) for a complete discussion of management philosophy.
(2) What are the principles applied by each organization?
   A. Are they clearly defined?
   B. What are the points of conflict, agreement?
   C. Can points of conflict be resolved and how?

(3) If all executive leadership from one firm is not to be terminated, are executive leaderships compatible?
   A. Is the executive leadership group made up of participative, autocratic, free-rein type of leadership?
      1. In the acquiring company?
      2. In the acquired company?
   B. Can points of difference be equitably resolved?

(4) What are the major policies applied by the two firms?
   A. Are there differences?
   B. Can these differences be resolved, and how?
   C. Are policies based upon principles?
   D. Is major policy effectively communicated?
      1. In the acquiring firm?
2. In the acquired firm?

(5) What are the major methods applied by both firms?

A. What are the major planning, organizing, and controlling techniques?
   1. In the acquiring firm?
   2. In the acquired firm?

B. Are there major differences?

C. Can differences be resolved?

(6) What is the basic structure of each organization?

A. Is each primarily line, line and staff, or line and staff with functional authority?

B. Are positions and relationships adequately defined in each firm?

C. Can differences be overcome in each firm?
   1. Can personnel adapt?
   2. Can re-education be performed in terms of time and expense?

If each of these questions cannot be resolved satisfactorily, then the firms should take a long, hard look at the value of continuing the merger negotiations. For other reasons, it may be desirable to continue; but
management should recognize the probabilities of severe integration of organizational interests problems developing.\textsuperscript{147}

**Limiting Factors**

Limiting factors are constraints upon action.\textsuperscript{148}

Any program established for the integration of organizational interests must be conceived within the confines of the organizations' limiting factors. Among the possible limiting factors are: (1) time, (2) cost, (3) ability of personnel, (4) location, (5) space availability, (6) need for secrecy, (7) future expectations, and (8) external influences. These are not necessarily limiting factors, but may be in any given merger situation.

The integration program in its intensity is, of course, subject to the time available. The time problem has potentially two facets. First, the short-range plans established in the program must be considered in terms of the time limitation. Second, the long-range plans, as well, must be considered in terms of the over-all time available. When time is a critical factor, it would be well to consider

\textsuperscript{147}It may be necessary to merge in spite of integration problems due to financial requirements, stockholder demand, competition, essential vertical or horizontal integration, etc.

\textsuperscript{148}For more detailed discussion see page 134.
the values inherent in applying a PERT program to the problem.\textsuperscript{149} The time allotted to a program for integration should be determined by allocating it in the necessary amounts to achieve the desired level of results.

Cost also must be considered in relation to desired level of results in the integration process. Some executives may be disturbed when they see the estimated budget requirements for establishing and implementing a program for the integration of organizational interests. However, one need only consider the potential dangers of not doing so and the costs inherent therein to realize the true value of such a program. However, in those firms where resources are limited, cost must be recognized as a limiting factor with which to be coped. This is no excuse for not establishing a program. It only means that the program will be less elaborate in nature.

The general attitude, adaptability, and ability of top executive leadership is most crucial to the development of an effective program. They must have a positive attitude and support the program, both in thought and deed. Their ability and willingness to do so will set the pattern of the program. Any reservation on their part must be considered a limiting factor to the program development and

\textsuperscript{149}See pages 136-137.
implementation. Also important is adaptability of middle management, lower management, and operative personnel in those situations where it is necessary. Such factors as age, level of education, degree of skill, and mental attitude will all play an important part in the determination of a program.

Location may be limiting to the program, especially in those cases where the two firms merging are located in separate geographical areas. This, of course, creates difficulties in facilitating the interaction process, at least at those levels below top management. Location problems, where they exist, must be a consideration in the development of the program. Space availability can lead to situations affecting working conditions and employee status. An example of a situation where this might occur would be in an instance where the merger entails moving all offices into one building, where space and facilities are not as adequate as some members have had in the past.

In some instances integration programs will be hampered by need for secrecy. However essential, secrecy can only add to integration problems by creating a climate that is ripe with rumor and uncertainty. If a firm is in a declining industry, this may also be a limiting factor that must be considered in establishing an integration program. Finally, in some instances, labor unions, government,
business, vendors, customers, or the financial community may limit the program that can be developed.

Size of Firms

The larger organizations have available greater resources and manpower for initiating an integration of interests program than do the small organizations. Also, the types of problems involved will vary in a manner that is somewhat proportionate to organizational size. For example, the small firm should have less communication problems than the major firm. The complexity of the program that should be established depends to a large extent on the size of the firm involved.\textsuperscript{150}

After giving consideration to these four factors, which are prerequisites to establishing a program for the integration of organizational interests, the stage is now set for the examination of such a program.

Consideration to Needs for Retrenchment in a Merger

Although the need for retrenchment is not considered a factor in many mergers, it is important enough to be worthy of detailed consideration.\textsuperscript{151} In those cases where job elimination is an important consideration in the merger,

\textsuperscript{150}See pages 183-185.

\textsuperscript{151}See pages 178-181 (specifically Tables 9 and 10).
there are various means that can be utilized to accomplish this end.

Means of Retrenchment

In considering the concept of retrenchment, it is often possible to establish programs which may act as a preventative mechanism in the need for future cost reduction.\textsuperscript{152} The more accurate the forecasting of future events, the more that can be done to reduce the need for curative retrenchment practices at the time of the merger. This section deals with the application of retrenchment programs on either a preventative or curative basis in light of the merger requirements.

Prevention or Cure. Prevention programs relate primarily to anticipating future requirements and, as such, deal with considerations in various aspects of the planning process of the company.\textsuperscript{153} For example, a basic change in a company's long-range objectives could have a decided effect on long-, intermediate-, and short-range plans. If

\textsuperscript{152}Raymond Villers expounds this view in his book, \textit{Dynamic Management in Industry} (New Jersey: Prentice-Hall, Inc., 1960). He explains on page 470 that "One of the best ways to avoid some of the unfavorable effects of drastic cost reduction is for management to follow a methodical policy of cost reduction under the leadership of the top management."

\textsuperscript{153}For example, planning programs of employee training will have as a desired result increased efficiency. Increased efficiency will result in reduced cost, and thus might be considered an application of a form of retrenchment.
the change involved some type of curtailment activity, a retrenchment program would be established. Retrenchment planning, preventative in nature, is the function of making adjustments to the specified factors, forces, desired effects, and relationships with respect to required organizational expansion over a period of time. Its purpose is to minimize the need for the installation of emergency programs of retrenchment in the short-run period after the merger.

The curative approach is the elimination of difficulties which have already occurred. It requires the modification of current activity due to undesirable results which have taken place, rather than which are anticipated. It is here that many retrenchment malpractices in merger

154 For example, in U.S. vs. United Fruit (United Fruit Company; Commerce Clearing House, Inc., Trade Regulation Reporter, Vol. 1, p. 789, ref.), United Fruit Company was told by the Supreme Court that it would be necessary to create a direct and comparable competitor in South America within a ten-year period, in order to eliminate its monopoly situation. This certainly created a need for a retrenchment program that extended itself into both intermediate and long-range planning.

155 A factor may be defined as any activity, either physical or human, that affects business functions. A force may be defined as an energizing factor, force, or influence that tends to result in action—i.e., dynamic leadership, employee attitudes, etc. An effect may be defined as periodic results or solutions achieved from action of the functions, factors, forces and relationships (R. C. Davis, interview).

156 See page 134 for definition of difficulty.
situations are found. This is where many executives succumb to panic and, by not applying the law of the situation, take some form of action detrimental to the organization's long-range objectives. When properly applied, however, the curative approach can be a most effective tool to management in a situation requiring emergency action.

Whether the method is preventative or curative, or whether it is on a current- or forecasted-results basis, the short-range or the long-range approach can be applied. The practical applications will be the same; only the timing and methods of accomplishment will differ.

**Functional Integration and Retrenchment.** It was indicated previously that the problem of retrenchment can occur as a result of seasonal, cyclical, and secular conditions. Seasonal conditions in business activity are reflected in periods of less than one year and are thus relatively short in duration. Most companies will attempt to minimize their seasonal problems through means other than retrenchment. However, in cases where retrenchment is necessary, a company will maintain maximum flexibility by developing variable costs that can be easily eliminated. Some examples would be temporary labor, leased equipment,

---

157Some ways would be to spread production throughout the year even though sales volume is seasonal; diversify to take care of slack periods; schedule vacations and change-overs for slack periods, etc.
contracted work, etc. Cyclical changes in business normally follow the pattern of general business activity and are short-term changes in business volume, either up or down. The normal cycle will be completed within a ten-year period and can, in the recessionary or depression stages, require consideration to retrenchment. Under these conditions, the company that has done a better job of keeping a trim ship will find its problems to be of much lesser degree than the company which has not kept a close control over costs.\textsuperscript{158} The secular trend is related to the long-range trend of a company's business volume and often can be related to the industry. A secular trend which is downward for both the company and the industry would indicate a declining industry. A downward secular trend for a given company in an industry with an increasing trend would indicate that the company is losing its position in the market. Assuming that the company could do nothing to improve its position, retrenchment would play an important part in the company's intermediate- and long-range planning program.

\textsuperscript{158}This is especially true in a recessionary period when the problems are not nearly so severe as those of a depression. In a recession, the company that has been continuously cost-conscious will have to take much less drastic action, therefore minimizing the problems related to the curative approach to retrenchment.
Functional integration is a form of retrenchment.\textsuperscript{159} It may be necessary in a merger to combine functions and centralize authority in order to gain economies.\textsuperscript{160} Management should examine and evaluate the proposed organization structure and business procedures in order to determine whether there is a need for functional integration. However, unless an emergency situation has developed, management should proceed carefully in this area. Caution is advised so that management does not create problems in stability and flexibility and undo the value of prior training and development of personnel.\textsuperscript{161}

**Implications of Cost Reduction.** The principles of sound management should be applied to retrenchment programs just as they are to all other matters within the organization. Improper application will cause negative reactions and negative results, whereas, effective programs will

\textsuperscript{159}R. C. Davis, *The Fundamentals of Top Management*, p. 215, defines functional integration as "the process of recombining functions in the parent organizational elements as the business volume declines. It is an important functional process during seasonal and cyclical declines in business volume."


complement the organization's long-range goals. A given program will manifest itself in any one or all of three areas: (1) reduction of direct personnel expense, (2) reduction of indirect personnel expense, and (3) reduction of nonpersonnel expenses. Each of these can reflect retrenchment through the process of curtailing future planned programs or current action. In either case, the considerations of practical application should be similar.

Retrenchment involving reduction of personnel within the organization is without question a difficult process, because of its direct effect upon people. Management must remember, when such programs are necessary, that it is imperative to integrate them to the closest possible extent with the administrative planning process. Improper handling of policy changes under these circumstances may have repercussions for years to come. When it is necessary to sever personnel from the payroll, it should be done with due consideration to organizational stability, balance, and morale.

Many times a company has a greater investment in its personnel than it realizes. Such factors as past experience

---


163 In companies with strong unions, it may be necessary to give consideration to their reactions as well, as this may have a direct bearing on the ultimate success or failure of a given program.
with either company, industrial knowhow, and informal popularity of the employee are important assets to a company which may be overlooked. The company that institutes good personnel practices and establishes planned programs of personnel staffing will reduce its difficulties insofar as personnel are concerned. It is not unusual, in a period of recession, to find companies eliminating personnel whom they consider to be ineffectual. The elimination of an employee who has been with the company for perhaps six months is easily justifiable on these grounds. However, it is difficult to understand how companies can use this reason for dismissal after an employee has served a number of years with either company.

If it becomes necessary to reduce personnel at any level of the organization, the easiest and most realistic approach is to apply justice to the decision—justice, not merely in the eyes of the organization itself, but also in the eyes of the employees.\textsuperscript{164} The company in need of

\textsuperscript{164}John F. Mee, \textit{op. cit.}, page 283: "Demotions, layoffs, and discharges are problems that most organizations would prefer to avoid. When they are necessary, however, the feelings of the individuals affected may be in part mitigated if the organization is in a position to justify its actions in terms of employee performance. If the employees affected, and others as well, realize that fairness and consideration are the keynotes of personnel policy, rather than favoritism, whim, and expediency, the 'climate' of personnel relations may in some measure be improved."
personnel reduction can soften the blow somewhat through the use of various techniques. These include: (1) replacement of vacancies from within the organization, (2) spreading the wage reduction by reducing hours of work or basic wage rate, (3) finding jobs for displaced personnel in other companies, and (4) establishing a program of early retirement. If the employee understands the need for reduction in wage costs, a more positive reaction and better acceptance may be forthcoming.

The reduction of indirect personnel expenses should be handled in the same manner as the reduction of direct personnel expenses when attempting to gain employee acceptance. Cutting costs in this area will affect the employee in a number of ways, including (1) decrease of fringe benefits and (2) reduction of prestige.\textsuperscript{165} It should be remembered that although this type of reduction is not as severe as the cutting of direct wages, it may, insofar as the employee is concerned, have an actual or imagined effect on his security, status, or prestige. It is equally necessary, therefore, to relate an understanding for the need of such programs to the employee in order to minimize resistance.

Nonpersonnel expense, although not as controversial to the employee, is important. It includes all those costs\textsuperscript{165} Examples would include elimination of the coffee room, reduced benefits in group insurance program, less expensive company automobiles, lower expense allowances, etc.
other than direct and indirect personnel expenses, such as costs of materials, supplies, utilities, etc. Many managers in the past have been surprised, if not astonished, at the cost savings they were able to find upon closer examination and analysis of historical accounting figures.\textsuperscript{166} Cost control is a by-product of effective management and, as such, should be a continuous process.

\textbf{Indirect Approach.} Sometimes the line of greatest expenditure is ultimately the line of least cost, as may be the case with technological improvements. Though involving high initial cost, automation may result in ultimate cost reduction. Automation normally requires an extensive capital expenditure which will create a limiting factor for the organization.\textsuperscript{167} For this reason, a company should carry out an extensive study and assure itself of need before making any commitments. It is necessary to consider all of the tangible factors such as cost analysis, speed and efficiency. Additionally, management must consider the

\textsuperscript{166}Billy E. Goetz, in \textit{Management Planning and Control} (New York: McGraw-Hill Book Company, Inc., 1949), on page 60 specifies that, "For managerial purposes, reasonably frequent appraisals must necessarily supplement historical cost data. Otherwise, accounting may continue to serve its legal purposes, but fail in the managerial."

\textsuperscript{167}To determine the ultimate savings for the payout period, it will be necessary to compare the estimated costs under automation with present costs. See Appendix C for a discussion of discounted cash flow, which is a method that may be applied.
intangibles of personnel displacement, adequate special
talent availability, and morale.\textsuperscript{168}

\textbf{Retrenchment--Practical Application.}\textsuperscript{169} A given
program of cost reduction can evolve in two ways. The first
is reduction of cost, utilizing available methods and
facilities. The second is reduction of cost through techni-
cal improvements. The first method might be referred to as
a direct approach, the second as an indirect approach.

Normally, the utilization of current facilities will require
less expenditure initially than will the indirect method.
However, to gain true perspective of which method is best,
it will be necessary to measure the over-all results. A
list of expenditures that could be examined for cost reduc-
tion might be as follows:

(1) Price costs

\textsuperscript{168}It would be wise to apply probability theory to
such a problem. One possibility would be Bayes Theorem of
Probability (Robert Schlaifer, \textit{Probability and Statistics
1959/ pp. 333-339). Mr. Schlaifer makes the following com-
ment on page 333: "The theory of probability does not
replace judgment and experience. Its utility lies rather in
the fact that it allows us to make more effective use of our
judgment and experience by assigning probabilities to those
events on which our experience and judgment bear most direct-
ly, rather than to events which will actually determine cost
but with which we have had relatively little direct experi-
ence."

\textsuperscript{169}See Bibliography at end of study for periodical
listing of specific articles and studies pertaining to the
practical application of the retrenchment program.
(a) Direct labor
(b) Direct materials

(2) Burden costs
(a) Indirect labor
(b) Indirect materials
(c) Factory overhead expense

(3) Sales costs
(a) Direct and indirect personnel selling expenses
(b) Advertising
(c) Sales promotion

(4) Administration costs
(a) General office expense
(b) Officers and staff expense
(c) Research expense.

Price costs are those costs that can be directly related to the product offered for sale. They include all items of material and labor that are directly chargeable to the individual product. In reviewing this area of expense, management should assure itself that it is paying the least cost necessary to gain the desired quality of product. Periodic appraisal of purchasing procedures, inventory procedures, quality standards, and waste should give an indication of the effectiveness with which materials are being purchased. Knowledge as to the effectiveness of labor
can be acquired through time-and-motion studies, merit rating programs, quality control measures, effective grievance machinery, and management-labor relations.

A periodic review and analysis of the burden factors should reap beneficial results. It is this area of production that is many times more difficult to measure and, therefore, more susceptible to inappropriate spending. Comparisons with past performance, both within the company, within the industry, and in related industries, where practical, should allow some standard for measurement. It may also be feasible from time to time to make use of the services of various cost analysis specialists.¹⁷⁰

Often, in the area of administration, a company places itself in the situation of the "tail wagging the dog," whereby administrative expenditure becomes disproportionate to its function.¹⁷¹ This may be especially true after a merger. Management should exercise care to assure

¹⁷⁰For example, there is an organization operating in Houston, Texas, whose sole function is to investigate the effectiveness with which a company utilizes its public utilities. There is knowledge of one company that made an immediate cost savings of 20 per cent through utilizing this firm's service.

¹⁷¹The indication here is that the company in this case has not maintained organizational balance. R. C. Davis on page 535 of The Fundamentals of Top Management, defines organizational balance as "a condition in which the relative development of the various functions and organization elements conforms as closely as practicable with their relative importance. The measure of importance should be their relative contributions to the achievement of the organization's service objectives."
itself that administrative functions are being effectively handled. However, there should be review and analysis to insure that they are not becoming disproportionate to the requirements of their mission. The methods of analysis are the same as those used for burden, except that this area of research requires a great deal more in the way of value judgments on the part of top management. Budgetary controls, procedure audits, and training programs are effective tools to utilize in this area.

Sales personnel represent the direct link between the company and the customer and, as such, act as the company's chief ambassador in the attempt to achieve its primary service objectives. For this reason, companies sometimes tend to over-emphasize the selling function and apply a disproportionate amount of expense to it. To the most practical extent attempts should be made to relate selling expense to sales production. Only in this way can its real value be measured. Here again, review and analysis becomes a valuable control device, if properly utilized.

Management's Responsibility

Whether a given retrenchment program affects either personnel or nonpersonnel expenses, management must make its decision to establish its programs by utilizing the law of the situation. The more effective management is in
minimizing the effect of limiting factors, the greater the mobility with which it can operate.\(^{172}\) It is management's responsibility to consider the concept of retrenchment by reducing costs whenever such a need is indicated in a merger. Employees should be appraised of the purpose and need of various programs and be allowed to participate to the maximum possible extent. If cost minimization becomes a philosophy accepted by both management and the employee, the long-range effects should be highly beneficial to all concerned.

**The Program for Integration of Organizational Interests**

The program for integration of organizational interests should be established within the format of the scientific method of problem solving.\(^{173}\) Once the mission inherent in the merger has been established, work can proceed to determine the desired program for accomplishment of that mission.

**Recognition of Principal Difficulties**

Based upon mission determination, much can be done to anticipate potential difficulties inherent in the merger

\(^{172}\)Two possibilities would be leasing, instead of purchasing, equipment, and using contract labor, rather than hiring personnel for temporary needs.

\(^{173}\)See discussion on pages 134-135.
situation. The principal difficulties to the effective integration of organizational interests should be given priority treatment in their solution. This would involve adequate consideration in the intermediate stage of the pre-merger period to these difficulties. \(^{174}\) Important considerations at this time are: \(^{175}\)

1. The determination of an adequate philosophy for the new organization;
2. The determination of personnel requirements for the new organization; \(^{176}\)
3. The determination of means for effectively communicating news of the merger and its implications for affected personnel.

Short-range plans should be established for the resolution of these difficulties as rapidly as is practical.

Plans should also be established for the period immediately after the merger to facilitate lower priority...
difficulties. This category of difficulties would include:

(1) Education of all affected personnel to the adjusted philosophy;

(2) Additional communication and reassurance to personnel;

(3) Institution of organization position changes
   (a) Change in job content and/or level of authority
   (b) Training of affected personnel
   (c) Facilitation of the development of new relationships;

(4) Institution of revised policies and procedures.

All of these short-range programs should be established in support of the long-range plans established for the new organization. It is important to establish organizational flexibility as rapidly as possible. However, due consideration must also be given to the need for organizational stability, as well.

177 This does not imply less importance in terms of need; but, rather, in relation to the time element.


179 See pages 109-111 for a discussion of "flexibility" and "stability."
Determination of Necessary Facts

Obviously, effective decisions cannot be made without a knowledge of the facts. A tedious, though necessary part of establishing a program for the integration of organizational interests is the data-collection audit. This should begin as early as is practical to the situation. The audit ought to be applicable to both firms in order to establish a basis for comparison. It should be performed in stages, some before and some after the merger, based upon the priority of needs that have been established. The necessary information should be collected from all practical sources. Figure 5 (three pages) lists sources that could give valuable information necessary to the audit. It would depend upon the ready availability of necessary information

180Myles L. Mace and George G. Montgomery, Jr., Management Problems of Corporate Acquisitions (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1962), p. 168. "In a few situations, representatives of the acquiring managements early in the negotiation stage mailed or handed long check lists to the organization to be acquired with requests that the information be collected and forwarded within a few weeks. The response by the receivers of such documents was usually negative and adverse to continued negotiations. With no conviction that a sale of their company would be attractive, the imposition of an encyclopedia-like questionnaire raised serious questions for the owners about the acquirer. Later in the negotiations when both the acquirer and the acquired have tentatively concluded that a useful relationship can be created, check lists do serve a purpose. But asking detailed questions prematurely through a check list was found to be untimely and ill-advised."
FIGURE 5
Sources of Information for Data-collection Audit

I. Legal Records Source
   A. Corporate charters
   B. Corporate by-laws
   C. Corporate minutes books
   D. Legal contracts
      1. Employment contracts
      2. Fringe-benefit contracts
      3. Leases
      4. Other
   E. Interviews with corporate attorneys

II. Accounting Records Source
   A. Annual reports and financial statements
   B. Corporate prospectus
   C. Corporate financial data analysis
   D. Interview with certified public accountants
   E. Other

III. Personnel Records Source
   A. Individual employee records
      1. Applications
      2. Payrolls
      3. Achievements (merit rating)
   B. Personnel policies and procedure records
   C. Personnel booklets (publications)
D. Labor reports submitted to various governmental agencies
E. Workmen's compensation, group insurance, and pension fund records
F. Correspondence files
G. Turnover files
H. Other

IV. General Records Source
A. Policy manuals
B. Procedure manuals
C. Company publications
   1. Company sources
   2. Public media
D. Top executive correspondence
E. Minutes of meetings
   1. Stockholders
   2. Board of Directors
   3. Corporate executives
F. Public records or interview sources
   1. Credit agencies
   2. Banks
   3. Investment Houses
   4. Industry records
G. Organization charts
H. Other
V. Corporate Interview Sources

A. All top executives and board members
B. Sample of middle management
C. Sample of lower management
D. Sample of operatives
E. Ex-employees
   1. Retired
   2. Voluntary termination
   3. Involuntary termination
F. Sample of large stockholders
G. Other

VI. Other Sources

A. Questionnaires
   1. Employee attitudes
   2. Employee aptitudes
   3. Sociometric studies
B. Observation
   1. Methods
   2. Behavior
in determining the variety of sources that would be examined.

Figure 6 (seven pages) indicates a possible data-collection audit program. The first stage of the program, coming before the merger, is preliminary in nature. It is, therefore, limited in scope. But it should, at a minimum, consider the pertinent aspects of each firm's philosophy, the degree to which the formal organizations control activity, general retrenchment requirements, and the ability to communicate with personnel. The function of the second stage is to make the necessary determinations that will facilitate the implementation of the desired management philosophy. The third stage is designed to measure success in achieving integration of organizational interests.

---

181 See Appendix D for a "Company Check List" offered by Myles L. Mace and George G. Montgomery, Jr., in Management Problems of Corporate Acquisitions.

182 In both Figures 5 and 6, reference is made to the use of sociogram analysis. A sociogram is a pictorial analysis of interaction patterns within an organization. See Dorwin Cartwright and Alvin Zander (Eds.), Group Dynamics Research and Theory (Evanston, Illinois: Row, Peterson & Company, 1962), p. 22. "Of the many devices for obtaining information from group members, one of the earliest and most commonly used is the sociometric test, which was invented by Moreno. During World War I, Moreno had administrative responsibility for a camp of Tyrolese displaced persons, and he observed that the adjustment of people seemed to be better when they were allowed to form their own groups within the camp. Later, in the United States, he undertook to check this insight by more systematic research on groups of people in such institutions as schools and reformatories. For this purpose he constructed a simple questionnaire on..."
FIGURE 6
Data-collection Audit Program for the Integration of Organizational Interests

I. Preliminary Audit Stage (Pre-merger period)
A. Introduction—historical overview of both firms
B. The determination of management philosophies of both firms
   1. General statement of the mission
      a. Organization and personal objectives
      b. Conditions affecting accomplishment of the objectives
         (1) Internal (relationship with internal groups)
         (2) External (relationship with external groups)
      c. Criteria for measuring achievement of objectives
         (1) Short-range measurement
         (2) Long-range measurement
   2. Statement of organization principles
      a. Ideals
      b. Ethics
   3. Appraisal of executive leadership
      a. Position held
      b. Type of leader
c. Remuneration
d. Years of experience
e. Age
f. Statement of ability
   (1) Qualities
   (2) Shortcomings
g. Attitude toward merger

4. Statement of major corporate policies
   a. Formal
   b. Implied

5. Statement of management methods
   a. Planning techniques
      (1) Degree and formality of planning
         (a) Short-range
         (b) Intermediate-range
         (c) Long-range
      (2) Responsibility for major corporate planning
   b. Organizing techniques
      (1) Degree and formality of organizing
         (a) Availability of organization charts
         (b) Availability of position definition (job descriptions and job specifications)
         (c) Functional definition
(2) Responsibility for major corporate organizing

c. Controlling techniques
   (1) Degree and formality of controlling
      (a) Level of major control enforcement (centralization)
      (b) Definition of critical factors in major controls
   (2) Responsibility for major corporate controls

6. Structure definition
   a. Organization charts
   b. Relationship of line and staffs
      (1) Use of functional authority
      (2) Differentiation
   c. Degree of centralization of authority
   d. Description of physical facilities
      (1) Location
      (2) Size
      (3) Quality
   e. Description of important physical factors
   f. Extent of integration of activity

C. The determination of the influence of the informal organization
1. Measure effectiveness with which formal philosophies are applied
   a. Questionnaire among sample of personnel to measure actual application of stated philosophies
   b. Interviews with sample of personnel
   c. Observation
     (1) Behavior
     (2) Records

2. Determine influence of informal groups over formal organization at administrative management levels
   a. Sociogram analysis
     (1) Determination of administrative management interaction patterns
     (2) Determination of any informal leaders
   b. Interviews
   c. Observation

D. Determination of need for retrenchment
   1. Inventory duplication of positions
   2. Compare wage and salary structures
   3. Examine for nepotism (related personnel)
   4. Age problems
   5. Relations with personnel
E. Determination of communication channels
   1. Present methods of communication
   2. Difficulties of communicating
      a. Distance
      b. Understanding
      c. Acceptance
         (1) Downward communication
         (2) Upward communication

II. Secondary Audit Stage (Post-merger Period)
   A. Introduction—Summarization of the desired organizational philosophy
      1. Mission
      2. Principles
      3. Executive leadership
      4. Major corporate policy
      5. Management methods
      6. Structure

   B. Definition of organizational positions—all affected levels
      1. Job description and specifications
         a. Functions
         b. Authority
      2. Place in hierarchy
      3. Effect upon personnel
a. Security
   (1) Experience
   (2) Age
   (3) Ability
   (4) Attitude toward merger

b. Remuneration
   (1) Wage and salary
   (2) Fringe

c. Status

d. Changes necessary
   (1) Duplications
   (2) Retirements
   (3) Transfers
   (4) Promotions
   (5) Demotions
   (6) Terminations
   (7) Re-training

C. Examine policies and procedures of prior organizations
   1. Determine necessary changes in light of current philosophy
   2. Determine needed additions and deletions

D. Determine requirements for instituting the program of change
1. Communication techniques available
2. Training and education alternatives
3. Alternatives available for allowing participation
4. Alternatives available for establishing responsibility for the program
5. Determination of necessary controls to assure compliance
   a. Determination of critical factors to be measured
   b. Determination of control responsibility
   c. Measure informal group activity and influence over effectiveness of the formal group relationships and performance

III. Periodic Follow-ups

A. Measure to determine if integration of organizational interests has been achieved
   1. Interviews
   2. Observation
   3. Questionnaires
   4. Sociogram analysis (to be compared with analysis at time of merger)

B. Ascertain if any unforeseen problems have occurred

C. Determine data necessary for amended plans, if necessary.
Determination of the Program

With a sense of purpose and a knowledge of the facts, management is then ready to make decisions pertaining to the establishment of a program for the integration of organizational interests. Preliminary to the merger, the decisions would involve determination of the ability to integrate philosophies of the two firms and a valuation of administrative adaptability in those situations in which definite changes are contemplated. An affirmative decision would indicate high probabilities of a successful integration period after the merger. Doubts should be examined very carefully before any final merger approval is forthcoming.\textsuperscript{183}

which each person was to indicate those other people with whom he would prefer to share some specified activity. It quickly became apparent that this device, and modifications of it, could provide valuable information about interpersonal attractions and repulsions among any collection of people. The data concerning "who chooses whom" could be converted into a "sociogram," or a picture in which individuals are represented by circles and choices by lines. Inspection of such sociograms revealed that some groups were more tightly knit than others, that individuals varied greatly in their social expansiveness and in the number of choices they received, and that cliques formed on the basis of characteristics such as age, sex, or race. In short, the sociometric test promised to yield valuable information about both individuals and interpersonal relations in groups. Although based essentially on subjective reports of individuals, the sociometric test provides quantifiable data about patterns of attractions and repulsions existing in a group.

\textsuperscript{183}See discussion, pages 199-200.
Carefully laid plans should be established to effectively communicate news of the merger and its effect upon personnel at the proper time and in the proper way. Immediately after the merger, programs should be established in order of priority to facilitate the rapid integration of organizational interests to the desired level. Formal relationships should be well defined. Attempts should be made to facilitate the development of new intra-group relationships. This can be achieved through frequent meetings and participation in changes through the early stages after the merger.

Some social activity between members will be of value in reducing the period of "strangeness" and will aid the building of new relationships. This will reduce possible ill effects that can develop in informal groups made up exclusively of members from one organization or the other. These groups can become hostile to changes, each member reinforcing the other toward open or secret opposition, if steps are not taken to prevent this.

If terminations are contemplated, they should be handled with dispatch. Employees can generally recognize a situation in which layoffs are probable. Such an uncertainty cannot help but alter the effectiveness of performance. Where possible, assurances should be given to those
personnel affected by potential staff reductions. When no layoffs are contemplated, this news should be effectively communicated to the organizational members.

After programs have been established, periodic analysis will be made to assure that activity is going according to plans and that no unanticipated difficulties have developed. Grievance machinery should be established in an attempt to gain immediate recognition of employee dissatisfaction and to take corrective action.

Summary

It is the responsibility of executive leadership to plan, organize, and control adequately the activity necessary to achieve integration of organizational interests. Within the boundaries established by limiting factors, management should apply a maximum effort to this endeavor. Without the development of a sound philosophy and the effective implementation of that philosophy, the integration period can be extended excessively, with dangerous implications to all organizational attributes and, most specifically, flexibility and stability. The values desired in a merger may be thwarted and the firm will suffer from loss of economy and effectiveness.
CHAPTER VII
SUMMARY AND CONCLUSIONS

The importance of mergers as a significant part of our economy has been proven over the years. The merger can be very valuable in retaining a capacity for growth and insuring economic stability. The complexities involved in the financial and legal aspects of a merger have been well developed in the literature. However, the need for recognition of the problem of integrating organizational interests has not been adequate.

By integration of organizational interests is meant the formal attempt to combine and unify thought and action of the two separate organizations into one compatible group. It includes consideration to such factors as management philosophy, management viewpoint, objectives, policies, procedures, leadership, personnel, the new organization structure, etc.

A philosophy of management is defined as a framework or system of thought which facilitates the decision-making and performance processes. The values in applying a sound philosophy would include:
(1) Consensus in interaction
(2) Coordination of thought and action
(3) Interpretation
(4) Decision-making
(5) Operative performance and performance evaluation
(6) Planning, organizing, and controlling the activities of the business, and
(7) Investigating, facilitating, motivating, communicating, and integrating thought and action.

The basic factors included in philosophy would be:
(1) Statement of the mission
(2) Principles
(3) Executive leadership
(4) Major policy
(5) Management methods, and
(6) Structure.

Each of these is an inherent part of the philosophical system and must be given full consideration in the effective planning, organizing, and controlling of a business endeavor. In a merger it is essential to effective integration of organizational interests that the philosophies of the two organizations be inventoried and evaluated for points of similarity and difference. If one philosophy is to prevail,
or a new philosophy is to be established, it is essential that all differences from the previous organizational philosophies be recognized and steps be taken to implement effectively the required changes. To evaluate properly the true value of the proposed merger, recognition should be given to the philosophical concepts of the two organizations prior to the date of merger consummation.

In the dynamic situation of a merger, it becomes especially critical to define rapidly the formal roles in light of the adopted philosophy. Included in the formal role definition of the individual would be such factors as:

(1) His relationship to others in the organizational chain of command
(2) The authority allocated to his position
(3) His relationship with his immediate superior and subordinates
(4) The specific functions performed in his position
(5) His formal status in the organization, and
(6) The courses of action open to him in decision-making in light of stated business objectives, policies, and procedures, etc.

The uncertainty of the situation can lead to strong informal influences if this is not done. Over time it can become continuously more difficult to re-establish organizational
requirements along the lines of the necessary philosophy, due to conflict and resistance to change that may develop through the influence of informal groups. Resistance usually occurs in one of eight prevalent areas:

(1) Changes that lower status or prestige
(2) Changes that cause personal fear of any kind
(3) Changes that affect job content
(4) Changes that reduce authority or freedom of action
(5) Changes that disrupt established routines
(6) Changes that rearrange formal and informal group relationships
(7) Changes that are forced without explanations or employee participation
(8) Changes that are resisted because of mental and/or physical laziness.

Techniques for reducing resistance to change include:

(1) a well-defined and communicated philosophy, (2) conflict reduction programs, (3) training and education programs, (4) participation programs, and (5) group decision. Much resistance is caused by misunderstanding and uncertainty. This kind of resistance can be readily corrected through effective programs of communication. Deep-rooted resistance requires far more complex consideration in its solution.
Usually this requires an attempt at changing employee attitudes and reducing their frustration.

An organization is a system made up of interrelated positions. Every position carries with it a group of performance roles. Some of the roles are classified as formal and others as informal. In addition, every position will be affected by the individual personality filling it. For effective performance, positions should be well-defined in terms of formal roles. This requires clear understanding by organization members of formal role limits as defined within the scope of the management philosophy. Informal role definitions and the individual personality in the position need not be restricted as long as they do not perform outside the limits of the formal role definitions. If they are allowed to function outside these limits, organizational objectives can become secondary to personal objectives and required coordination can break down.

Timing is an important consideration in the establishment of a program for the integration of organizational interests. The program can be divided into pre-merger and post-merger periods. The details of the program in each stage will depend upon consideration to:

(1) The specific integration mission of the merger
The degree of compatibility of the two firms in regard to their management philosophies.

The limiting factors inherent in the situation, and

The size of the firms being integrated.

The pre-merger period can be further divided into the pre-merger stage of early negotiations, the intermediate stage of serious evaluation, and the final stage of consummating the legal merger. The post-merger period may also be divided into three stages: the immediate post-merger stage of indoctrination and education of personnel, the intermediate post-merger stage of implementing integration programs and evaluating results, and the final post-merger stage in which complete integration has been achieved. The length of each stage will depend to a large extent upon the effectiveness of planning and the complexity of the issues involved. Until complete integration has been achieved, the organization cannot hope to achieve optimum results in performance.

Through application of the scientific method of problem-solving, it is the responsibility of executive leadership to plan, organize, and control adequately the factors, forces, effects, and relationships to achieve integration.
of organizational interests. The prime responsibility for the integration program should be established in one executive. Below this level, a team effort involving members of both organizations will facilitate the process through application of participation techniques. This should lead to more rapid integration of thought and action because of executive exposure to the issues and commitment toward the program. Often, the program can be facilitated through the use of outside consultants to aid the process of integration.

If retrenchment is anticipated, this aspect of the program should be handled with dispatch in order to facilitate the reduction of the uncertainty period to which the organization is subjected. Preventative methods of retrenchment are preferred over curative methods where possible, as they are less disruptive to the organization. Improperly conceived retrenchment programs can do serious damage to organization flexibility and stability.

Empirical evidence, reported in Chapter VI, indicates a number of potential difficulties inherent in the merger situation. In the first place, 47.1 per cent of the corporate executives responding did not consider planning for the integration of organizational interests important enough to institute a formal program. Second, of
those who did institute a program, a number reported several fundamental factors as being unimportant considerations in such a program. Some of these factors reported as unimportant were: business philosophy (17.1 per cent), objectives (13.6 per cent), executive leadership (12.1 per cent), organization structure (23.9 per cent), policies (15.6 per cent), and management methods (21.7 per cent). Third, it is significant that of the firms that have been merged for more than one year, only 15 per cent have not had turnover that is attributable to the merger. The empirical research generally supported the hypothesis that a majority of firms spend a minimum of time and effort in the formal planning for the integration of organizational interests. It is further established that much of the correction of difficulties in mergers is not preventative in nature, but curative. That is, since many of the problems are not anticipated, corrective action is taken after damage has been done. This finding is in support of the second hypothesis.

A finding of interest is that among involuntary terminations, incompetence and resistance to change are ranked substantially higher than other reasons for such terminations.

It is also significant that it usually takes a long period of time, usually more than one year, for employee
incompetence to be recognized. Although the sample was a small one, it is noteworthy that those who were involved in the depth interviews and who had been terminated from the acquired company had since been successful in like endeavor. Other findings in support of the second hypothesis include the following:

(1) Eighty-one and four-tenths per cent of the consultant respondents felt that communications were less effective than they should be;

(2) Sixty-nine per cent of the consultants felt morale would decrease in the acquired company immediately after the merger; and

(3) The consultants responded that their experience regarding the causes of lingering after-merger difficulties reflected the following:
(a) Lack of planning in regard to integration of structure, objectives, policies, procedures, etc.
(b) Inability of management to cope with the new situation
(c) Inability of employees to adjust to the new situation
(d) No formal attempt to integrate the management philosophies of the two organizations
(e) Lack of decisive leadership action
(f) Poor communication, and
(g) Threat to personal security.

The third hypothesis, pertaining to the effect of the nature and size of the firms involved in a merger, was partially validated. The findings did not indicate any major differences in response between industries, but did find a difference in response on the basis of organizational size. In general, the smaller firms had less integration of interests problems than did the middle-sized and larger firms. The smaller firms reflected less need for formal planning for the integration of organizational interests, explained mainly by proximity of organizational members.

The fourth hypothesis was discussed in Chapter VI, in the establishment of a suggested program for the integration of organizational interests. There is a large body of support in the literature of the need for a sound organizational philosophy. However, it will require application over time of the recommended program to justify scientifically the value of the recommended philosophy audit and plans implemented therefrom.
Any program for the integration of organizational interests must be established within the confines of the organization's limiting factors. Among the more important possible limiting factors are:

1. Time
2. Cost
3. Ability of personnel
4. Location
5. Space availability
6. Need for secrecy
7. Future expectations, and
8. External influences.

The criticalness of any of these factors will depend on the given merger situation and the circumstances of the companies involved therein.

It is the responsibility of executive leadership to plan, organize, and control adequately the activity necessary to achieve integration of organizational interests. Within the boundaries established by limiting factors, management should apply a maximum effort to this endeavor. Without the development of a sound philosophy and the effective implementation of that philosophy, the integration period can be extended excessively with dangerous implications to all organizational attributes and, most
specifically, flexibility and stability. The values desired in a merger may be thwarted and the firm will suffer from loss of economy and effectiveness.
APPENDIX A

CONSULTANT QUESTIONNAIRE
To Principal Executives of Management Consulting Firms:

An intensive study of organizational problems in mergers is being undertaken by The Ohio State University Bureau of Business Research. The study is being conducted by Mr. Herbert J. Johnson, under the general supervision of Professor Ralph C. Davis of the Department of Business Organization.

The purpose of this study is to develop new knowledge concerning the organizational conflicts that interfere with the effective accomplishment of mergers. We hope also to develop methods of minimizing these conflicts.

The cooperation of a member of your firm, who has had experience in mergers, can contribute valuable insight into this problem. Would you please ask this member to consider this request and give us the benefit of his experience and views.

The attached folder provides a resume of the objectives and of the plan of the study... and for convenience in response, an outline in questionnaire form of what appear to be the salient features of this aspect of mergers.

Your replies will be held in strict confidence. No firm names will be identified in the published report. For anonymity even in our processing, firm schedules are identified only by code numbers.

A business-reply envelope is enclosed for the return of the completed questionnaire.

Your assistance will be very much appreciated.

Sincerely,

James C. Yocum
Director

JCY:jg
Enclosure
To Principal Executives of Management Consulting Firms:

A short time ago we sent you a questionnaire seeking the benefit of your experience in certain aspects of mergers. Your experience will contribute vitally to the knowledge that we hope to develop on the subject of Integration of Organizational Interests in Mergers -- especially with respect to the organizational conflicts that interfere with the effective accomplishment of mergers, and methods of minimizing those conflicts.

Since we have not had any reply from your organization we are sending you another copy of the questionnaire, hoping that you will be able to complete it and return it to us at an early date.

The response to the first mailing of the questionnaire has been gratifying. One of the largest consulting firms even circulated copies of our questionnaire among several dozen staff members who have had experience with mergers and gave us the benefit of the consensus of their staff. We should like, however, to have a still further representation of management consultants before we close the tabulation of the replies to these questionnaires.

Your assistance will be very much appreciated.

Sincerely,

James C. Yocum, Director

P.S. It may be helpful in answering the questionnaire if you assume
1. That the acquiring company is larger and stronger, with stronger executive leadership, than the acquired company.
2. That it is immaterial whether the merged firms are in the same business since the interest here is in conflicts of management philosophy, value scales and objectives; however, if it provides a clearer situation it may be assumed that the acquiring and the acquired firms are in the same business.
3. That those aspects of organizational interest such as management philosophy, objectives and policy are matters for first consideration, and that procedures, personnel, organization structure, etc. are derivatives and at the operating level and have a later timing in consideration and treatment.

J.C.Y.
DEGREE OF INTEGRATION OF ORGANIZATIONAL INTERESTS IN MERGER SITUATIONS

"Organizational Interests" Defined
By integration of organizational interests is meant the formal attempt to combine and unify the thought and action of the two separate organizations into one compatible group. It includes considerations of such factors as business philosophy, management viewpoint, objectives, policy, procedures, leadership, personnel, the new organization structure, etc.

OBJECTIVES
The major objectives of this work are (1) to develop new knowledge concerning the organizational conflicts that interfere with the effective accomplishment of mergers, and (2) to develop methods of minimizing these conflicts.

In detail, the study will:
1. Determine the extent to which firms recognize the integration of organizational interests as a fundamental problem in mergers, and the amount of time and effort that firms normally expend in accomplishing this integration.
2. Ascertain what the potential ill effects are from not effectively integrating the organizational interests in a formal manner.
3. Determine if the organizational problems that develop in a merger are affected by the nature and/or size of the firms involved.
4. Develop an analysis of the fundamental issues and operational guidelines for the more effective integration of organizational interests in a merger situation.

METHODOLOGY
1. Results of previous case studies pertaining to mergers, from references in the literature, are being integrated with this study.
2. This questionnaire is being circulated (a) among management consultants, and (b) among executives of recently merged firms. Their combined experience will provide valuable insight into the problem of effective integration of organizational interests in mergers.
3. Intensive interviews with selected companies that have recently merged will reinforce statistical inferences drawn from the questionnaire and case data.

PRACTICAL VALUE OF THE STUDY
To Corporate Management
Develop a greater awareness in the complexities involved in integrating management viewpoints and other organizational interests, and the need for the development of a sound program of integrating these factors in mergers.

To Management Consultants
Add depth in understanding of the problems of integration of interests in mergers in order to serve clients more effectively.

HOW PARTICIPATING FIRM DATA WILL BE USED
Your responses to this questionnaire will be combined with those of other participating firms. The data will be analyzed to determine the results of your aggregate experience.

Questionnaires are identified only by code number for anonymity in processing. Only broad aggregates of data, under rules preventing disclosure of individual firm data, will be published.

AVAILABILITY OF THE STUDY
It is intended that the research results will be published as an O.S.U. Bureau of Business Research Monograph. All participating firms will be sent information regardless availability of the study at the time of publication.

DIRECTION OF THE STUDY
Research is being conducted by Herbert J. Johnson under the general supervision of Professor Ralph C. Davis of the Department of Business Organization, College of Commerce and Administration, The Ohio State University. Professor Davis is an internationally known authority in management and the author, among other books, of The Fundamentals of Top Management. Mr. Johnson is currently instructing in Management in the College, and will become Assistant Professor of Accounting at the University of Houston in the Fall of 1964-65. He has had experience in mergers and acquisitions both as a member of management and as a consultant. He is a Certified Public Accountant and is well qualified in experience and advanced study to conduct this analysis.
This questionnaire concerns the experience which you have had in merger situations. It deals with the integration of organizational interests rather than with the financial aspects of the merger. By integration of organizational interests is meant the formal attempt to combine and unify the thought and action of the two separate organizations into one compatible group. It includes consideration of such factors as business philosophy, management viewpoints, objectives, policy, procedures, leadership, personnel, the new organization structure, etc.

1. In your experience with mergers, in what proportion of the mergers has integration of the organizational interests of the merged firms been adequately planned?
   - All mergers
   - 67 to 99 percent of the mergers
   - 34 to 66 percent of the mergers
   - 1 to 33 percent of the mergers
   - None of the mergers

2. What importance do you attach to each of the following factors in establishing a plan for the integration of organizational interests in a merger?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Very Important</th>
<th>Moderately Important</th>
<th>Of Small Importance</th>
<th>Of No Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business philosophy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive leadership</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management methods</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. In your experience with firms that have engaged in adequate planning for the integration of organizational interests at the early stages of the merger,

   a) with respect to rapidity of integration, which statement is most correct:
      - (a) Planning leads to more rapid integration of interests.
      - (b) Planning leads to less rapid integration of interests.
      - (c) Planning has no effect.
      - (d) Other (please specify)

   b) With respect to after-merger compatibility, which statement is most correct:
      - (a) Planning leads to greater administrative management compatibility.
      - (b) Planning does not lead to greater administrative management compatibility.
      - (c) Planning has no effect.
      - (d) Other (please specify)
4. Which of the following is true about performing a formal audit of the management philosophies of two merging firms to determine points of consistency and inconsistency?

☐ (a) It should be done
☐ (b) It would not be practical to do
☐ (c) It is already being done in most cases
☐ (d) Other (please specify)

5. In your experience when two companies are contemplating a merger, is any attempt made to predict the future compatibility of the organizational interests of the separate firms?

☐ (a) No formal or informal attempt is usually made
☐ (b) Usually an informal attempt is made
☐ (c) A formal attempt is normally made, but in an incomplete way
☐ (d) A thorough investigation, analysis, and evaluation is normally made
☐ (e) Other (please specify)

6. Which one of the following statements do you consider substantially correct about the problems of the integration of organizational interests in merger situations?

☐ (a) Most organizational interests problems occurring in merger situations can be anticipated and preventative action taken
☐ (b) At least some of the organizational interests problems occurring in merger situations can be anticipated and preventative action taken
☐ (c) Little or nothing can be done to anticipate organizational interests problems that develop in a merger
☐ (d) Other (please specify)

7. In your experience with companies that have had lingering after-merger difficulties, which of the following have consistently been major contributing factors?

☐ (a) No formal attempt to integrate the management philosophies of the two organizations
☐ (b) Inability of management to cope with the new situation
☐ (c) Lack of planning in regard to integration of structure, objectives, policies, procedures, etc.
☐ (d) Inability of employees to adjust to the new situation
☐ (e) Other (please specify)

8. Do you feel that integration of organizational interests in a merger should be completed:

☐ (a) Slowly over an extended period of time
☐ (b) Rapidly (within one year)
☐ (c) Other (please specify)

9. In most cases, after a period of adjustment, which one of the following do you feel is the most appropriate statement regarding the after-merger organization:

☐ (a) It tends to reflect the nature of the acquiring organization
☐ (b) It tends to reflect the nature of the acquired organization
☐ (c) It tends to operate somewhat differently from the predecessor companies
☐ (d) Other (please specify)
10. Shortly after a merger, are any of the following conditions generally found among personnel? Please check any that are significant in frequency or importance.

☐ (a) Curiosity as to future events
☐ (b) Excitement about the new situation
☐ (c) Alarm and confusion (as exemplified by an excessive amount of rumor)
☐ (d) Some initial confusion, normally of a short duration, with a minor effect upon activity
☐ (e) No recognizable emotion
☐ (f) Other (please specify)

11. Who should have the responsibility for integrating the organizational interests of the acquired firm and the acquiring firm?

☐ (a) Management of the acquiring firm
☐ (b) Combined management members from both organizations
☐ (c) Other (please specify)

12. Which are the two most probable after-effects of a merger upon personnel of the acquired organization?

☐ (a) A feeling of greater personal opportunity as a result of the merger
☐ (b) Insecurity based upon fear of loss of job
☐ (c) Insecurity based upon fear of loss of status
☐ (d) A wait-and-see attitude
☐ (e) Other (please specify)

13. When no formal attempt at integrating the organizational interests of the merged units has been made, is (are) any of the following likely to occur after the merger? Please check any that is (are) significant.

☐ (a) Bickering among employees
☐ (b) Intrigue and politics
☐ (c) Voluntary and involuntary terminations
☐ (d) Loss of market share
☐ (e) Decreasing profits
☐ (f) Other (please specify)

14. Generally speaking, would you consider the major integration-of-organizational-interests problems that develop in merger situations to be:

☐ (a) Resolved within 6 months after merger
☐ (b) Resolved within 2 years after merger
☐ (c) Usually lingering (affect operations for more than 2 years)
☐ (d) Other (please specify)

15. When there are lingering integration-of-management-interests problems in a merger, which group(s) do you feel is (are) at fault?

☐ (a) Board of directors
☐ (b) Company officers
☐ (c) Middle management
☐ (d) Lower management
☐ (e) Employees
☐ (f) Other (please specify)
16. Which of the following groups normally plays an important part in influencing the merger decision?

<table>
<thead>
<tr>
<th>Group</th>
<th>Acquiring Company</th>
<th>Acquired Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operative employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bottom management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stockholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor union (when there is one)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some governmental agency</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. Where no formal program for integrating the organizational interests of merging firms exists, what would be your prediction regarding level of morale under the following circumstances?

<table>
<thead>
<tr>
<th>Prior to the merger, morale will tend to:</th>
<th>In The Acquiring Company</th>
<th>In The Acquired Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remain constant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cannot determine</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Immediately after the merger morale will tend to: |                          |                        |
| Remain constant                                  |                          |                        |
| Increase                                         |                          |                        |
| Decrease                                         |                          |                        |
| Cannot determine                                  |                          |                        |

| One year later morale will tend to:               |                          |                        |
| Remain constant                                  |                          |                        |
| Increase                                         |                          |                        |
| Decrease                                         |                          |                        |
| Cannot determine                                  |                          |                        |

18. How well does management normally communicate the news of a merger to its employees?

<table>
<thead>
<tr>
<th>To employees of</th>
<th>To employees of</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring Company</td>
<td>Acquired Company</td>
</tr>
<tr>
<td>Usually quite effectively</td>
<td></td>
</tr>
<tr>
<td>Effectively, but it could be better</td>
<td></td>
</tr>
<tr>
<td>Management is somewhat ineffective</td>
<td></td>
</tr>
<tr>
<td>Management is completely ineffective</td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
</tr>
</tbody>
</table>
19. How important is each of the following as a reason for the acquiring company merging, according to your experience:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Very Important</th>
<th>Moderately Important</th>
<th>Of Small Importance</th>
<th>Of No Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase financial strength</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquire management talent</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce administrative costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquire valuable patents or processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Break into new marketing area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve profit position</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquire manufacturing knowhow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20. How important is each of the following as a reason for the acquired company merging, according to your experience:

<table>
<thead>
<tr>
<th>Reason</th>
<th>Very Important</th>
<th>Moderately Important</th>
<th>Of Small Importance</th>
<th>Of No Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for additional capital to operate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desire of owners to withdraw</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pressure of acquiring company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for improved technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

21. In each of the merger situations following, please check one of the 3 spaces provided to indicate your estimation of the relative difficulty of integrating organizational interests:

<table>
<thead>
<tr>
<th>Acquiring Company Has</th>
<th>Acquired Company Has</th>
<th>No Major Problem</th>
<th>Real, but Solvable Problem</th>
<th>Unsolvable Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Policy of centralized control</td>
<td>Policy of decentralized control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Policy of decentralized control</td>
<td>Policy of centralized control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Excellent leadership</td>
<td>Poor leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Poor leadership</td>
<td>Excellent leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Poor morale</td>
<td>Good morale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Good morale</td>
<td>Poor morale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Activity geographically decentralized</td>
<td>Activity geographically centralized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Activity geographically centralized</td>
<td>Activity geographically decentralized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Multi-line business</td>
<td>Specialty business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>j) Specialty business</td>
<td>Multi-line business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>k) Primarily manufacturing</td>
<td>Primarily marketing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>l) Primarily marketing</td>
<td>Primarily manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
22. Please indicate the principal reasons for voluntary managerial resignations after a merger:

a. By executives of the acquiring company —

b. By executives of the acquired company —

23. Please indicate the principal reasons for involuntary managerial resignations after a merger:

a. By executives of the acquiring company —

b. By executives of the acquired company —

CLASSIFICATION INFORMATION

24. In which industrial classification have you had your principal experience with mergers?

   □ (a) Manufacturing
   □ (b) Wholesale trade
   □ (c) Retail trade
   □ (d) Mining
   □ (e) Transportation, communication, utilities
   □ (f) Finance, insurance, real estate
   □ (g) Agriculture, forestry, fishing
   □ (h) Services
   □ (i) Other (please specify)

25. Which of the following best categorizes your experience with mergers?

   □ (a) Large organizations (over $25 million in sales)
   □ (b) Medium-sized organizations (under $25 million in sales but over $1 million)
   □ (c) Small organizations (under $1 million in sales)
   □ (d) All of the above
   □ (e) Other (please specify)

26. The number of clients with whom you have had past merger experience approximates:

   □ (a) One or two clients
   □ (b) About five clients
   □ (c) Over five, but fewer than 10 clients
   □ (d) Over ten clients
Your comments on any of the preceding questions, or any other matters relative to integration of interests in mergers, will be appreciated greatly.

Thank you for your cooperation.

Please check to see that all statements are completed. Each is important.

___________ Firm Code Number (for statistical classification purposes only)

Please return in the attached Business Reply envelope to:

BUREAU OF BUSINESS RESEARCH
The Ohio State University
College of Commerce and Administration
1775 South College Road
Columbus, Ohio 43210
APPENDIX B

CORPORATE EXECUTIVE QUESTIONNAIRE
An intensive study of organizational problems in mergers is being undertaken by The Ohio State University Bureau of Business Research. The study is being conducted by Mr. Herbert J. Johnson, under the general supervision of Professor Ralph C. Davis of the Department of Business Organization.

The purpose of this study is to develop new knowledge concerning the organizational conflicts that interfere with the effective accomplishment of mergers. We hope also to develop methods of minimizing these conflicts.

According to the "Announcements of Mergers and Acquisitions" published by The National Industrial Conference Board in The Conference Board Record, your company has experienced a merger or mergers within the past two years.

The cooperation of your firm can contribute valuable insight into this problem. Would you please ask a member of your staff who has had the most direct concern with your recent merger to consider this request and give us the benefit of his experience and views?

The attached folder provides a resume of the objectives and of the plan of the study... and for convenience in response, an outline in questionnaire form of what appear to be the salient features of the organizational aspects of mergers.

Your replies will be held in strict confidence. No firm names will be identified in the published report. For anonymity even in our processing, firm schedules are identified only by code numbers.

A business-reply envelope is enclosed for the return of the completed questionnaire. Your assistance will be very much appreciated.

Sincerely,

James C. Yocum
Director
DEGREE OF INTEGRATION OF ORGANIZATIONAL INTERESTS IN MERGER SITUATIONS

"Organizational Interests" Defined

By integration of organizational interests is meant the formal attempt to combine and unify the thought and action of the two separate organizations into one compatible group. It includes considerations of such factors as business philosophy, management viewpoint, objectives, policy, procedures, leadership, personnel, the new organization structure, etc.

OBJECTIVES

The major objectives of this work are (1) to develop new knowledge concerning the organizational conflicts that interfere with the effective accomplishment of mergers, and (2) to develop methods of minimizing these conflicts.

In detail, the study will:

1. Determine the extent to which firms recognize the integration of organizational interests as a fundamental problem in mergers, and the amount of time and effort that firms normally expend in accomplishing this integration.

2. Ascertain what the potential ill effects are from not effectively integrating the organizational interests in a formal manner.

3. Determine if the organizational problems that develop in a merger are affected by the nature and/or size of the firms involved.

4. Develop an analysis of the fundamental issues and operational guidelines for the more effective integration of organizational interests in a merger situation.

METHODOLOGY

1. Results of previous case studies pertaining to mergers, from references in the literature, are being integrated with this study.

2. This questionnaire is being circulated (a) among management consultants, and (b) among executives of recently merged firms. Their combined experience will provide valuable insight into the problem of effective integration of organizational interests in mergers.

3. Intensive interviews with selected companies that have recently merged will reinforce statistical inferences drawn from the questionnaire and case data.

PRACTICAL VALUE OF THE STUDY

To Corporate Management

Develop a greater awareness in the complexities involved in integrating management viewpoints and other organizational interests, and the need for the development of a sound program of integrating these factors in mergers.

To Management Consultants

Add depth in understanding of the problems of integration of interests in mergers in order to serve clients more effectively.

HOW PARTICIPATING FIRM DATA WILL BE USED

Your responses to this questionnaire will be combined with those of other participating firms. The data will be analyzed to determine the results of your aggregate experience.

Questionnaires are identified only by code number for anonymity in processing. Only broad aggregates of data, under rules preventing disclosure of individual firm data, will be published.

AVAILABILITY OF THE STUDY

It is intended that the research results will be published as an O.S.U. Bureau of Business Research Monograph. All participating firms will be sent information regardless availability of the study at the time of publication.

DIRECTION OF THE STUDY

Research is being conducted by Herbert J. Johnson under the general supervision of Professor Ralph C. Davis of the Department of Business Organization, College of Commerce and Administration, The Ohio State University. Professor Davis is an internationally known authority in management and the author, among other books, of The Fundamentals of Top Management. Mr. Johnson is currently instructing in Management in the College, and will become Assistant Professor of Accounting at the University of Houston in the Fall of 1964-65. He has had experience in mergers and acquisitions both as a member of management and as a consultant. He is a Certified Public Accountant and is well qualified in experience and advanced study to conduct this analysis.
DEGREE OF INTEGRATION OF ORGANIZATIONAL INTERESTS IN MERGER SITUATIONS

As reported in "The Conference Board Record" published by the National Industrial Conference Board or other sources, you have experienced one or more mergers or acquisitions within the past two years. Among the mergers or acquisitions in which your firm was involved, did you have a merger in which all of the following statements were true at the time of the merger?

I. GENERAL INFORMATION

(a) It was planned that the acquired firm or some part of it would remain active as an organizational component ________ True False
(b) It was planned that a majority of the general administrative personnel of the acquired firm would be retained ________ True False
(c) There was no appreciable management control of the acquired firm by the acquiring firm prior to the merger ________ True False

If you did NOT have a merger about which you could answer "true" to all three statements above, please stop at this point questionnaire. Otherwise, please continue. Thank you.

II. MERGER EXPERIENCE

This questionnaire concerns the experience which you have had in merger situations. It deals with the integration of the organizational interests rather than with the financial aspects of the merger. By integration of organizational interests is meant the formal attempt to combine and unify the thought and action of the two separate organizations into one compatible group. It includes consideration of such factors as business philosophy, management viewpoints, objectives, policy, procedures, leadership, personnel, the new organization structure, etc.

With respect to your firm's most significant merger about which all of the statements in Section I were true, please give answers to the following questions.

1. Before the two companies merged, was any attempt made to predict the future compatibility of the organizational interests of the separate firms?

□ (a) No formal or informal attempt was made.
□ (b) An informal attempt was made.
□ (c) A formal attempt was made, but in an incomplete way.
□ (d) A thorough investigation, analysis, and evaluation was made.
□ (e) Other (please specify) ________________

2. In your merger situation, which one of the following statements do you consider substantially correct about the problems of the integration of organizational interests?

□ (a) Most of the organizational-interests problems occurring in the merger were anticipated and preventative action taken.
□ (b) At least some of the organizational-interests problems occurring in the merger were anticipated and preventative action taken.
□ (c) Little or nothing was done to anticipate organizational-interests problems that might develop in a merger.
□ (d) Other (please specify) ________________

3. Which of the following is most correct regarding your organization since the merger?

□ (a) We have had severe organizational problems that can be attributed to the merger.
□ (b) We have had some organizational problems as a result of the merger, but have had little difficulty correcting them.
□ (c) We have had no organizational problems since the merger.
□ (d) Other (please specify) ________________
4. (a) In this merger did you establish a formal plan for the integration of the organizational interests involved?

   Yes □  No □

(b) If yes, what importance did you attach to each of the following factors in the plan for integration:

   - Very Important
   - Moderately Important
   - of Small Importance
   - of No Importance

   Business philosophy
   Organization structure
   Objectives
   Policies
   Executive leadership
   Procedures
   Technical processes
   Personnel
   Management methods
   Other (please specify)

5. After a period of adjustment, which of the following do you believe to be appropriate statements regarding your after-merger organization:

   □  (a) It has tended to reflect the nature of the acquiring organization.
   □  (b) It has tended to reflect the nature of the acquired firm.
   □  (c) It has tended to operate somewhat differently from the predecessor companies.
   □  (d) Other (please specify)

6. Shortly after the merger, were any of the following conditions generally found among personnel? Please check any that are significant in frequency or importance.

   □  (a) Curiosity as to future events.
   □  (b) Excitement about the new situation.
   □  (c) Alarm and confusion (as exemplified by an excessive amount of rumor).
   □  (d) Some initial confusion, of a short duration, with a minor effect upon activity.
   □  (e) No recognizable emotion.
   □  (f) Other (please specify)

7. In this merger who had the responsibility for integrating the organizational interests of the acquired firm with the acquiring firm?

   □  (a) Management of the acquiring firm.
   □  (b) Combined management members from both organizations.
   □  (c) Other (please specify)

8. Would you consider the major integration-of-organizational-interests problems that develop in merger situations likely to be:

   □  (a) Resolved within 6 months after merger.
   □  (b) Resolved within 2 years after merger.
   □  (c) Lingering (affect operations for more than 2 years).
   □  (d) Other (please specify)

9. In each of the merger situations following, please check one of the 3 spaces provided to indicate your estimation of the relative difficulty of integrating organizational interests:

<table>
<thead>
<tr>
<th>Acquiring Company Has</th>
<th>Acquiring Company Has</th>
<th>No Major Problem</th>
<th>Real but Solvable Problem</th>
<th>Unsolvable Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Policy of centralized control</td>
<td>Policy of decentralized control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Policy of decentralized control</td>
<td>Policy of centralized control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Excellent leadership</td>
<td>Poor leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Poor leadership</td>
<td>Excellent leadership</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Poor morale</td>
<td>Good morale</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Good morale</td>
<td>Poor morale</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
10. If any general administrative management personnel of the acquired firm have been separated, either voluntarily or involuntarily, please list the most important reasons for their separation:

III. CLASSIFICATION INFORMATION

11. What was the effective date of your “most significant recent merger” about which you have provided information above?

12. Please indicate the principal industry classification of each of the organizations involved in this merger:

<table>
<thead>
<tr>
<th>Acquiring Company</th>
<th>Acquired Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Wholesale trade</td>
<td></td>
</tr>
<tr>
<td>Retail trade</td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td></td>
</tr>
<tr>
<td>Transportation, communication, utilities</td>
<td></td>
</tr>
<tr>
<td>Finance, insurance, real estate</td>
<td></td>
</tr>
<tr>
<td>Agriculture, forestry, fishing</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
</tr>
</tbody>
</table>

13. In your industry, do you consider your after-merger organization to be:

☐ (a) Large
☐ (b) Medium
☐ (c) Small

14. Approximately how many general administrative management personnel of the acquired firm

(a) were employed before the merger? ______________
(b) were retained at the time of the merger? ______________
(c) are retained at the present time? ______________

15. How many mergers have you had in the past five years? ______________

Firm code number (for statistical classification purposes only)

Thank you for your cooperation. Please return in the attached Business Reply envelope to:

BUREAU OF BUSINESS RESEARCH
The Ohio State University
College of Commerce and Administration
1775 South College Road
Columbus, Ohio 43210
The Combined Company was the subject of this study. The company, formed in March, 1960, was the result of a merger between Company A and Company B. The organization functions as a manufacturer and supplier of equipment to heavy industry and has the capacity to serve a market that is world-wide in scope.

Both of the previous companies had histories of successful operation, and it was the opinion of the controlling stockholders that the merger would result in complementary activity leading to even greater success than previously experienced. Our purpose was:

(1) To examine the activity of the Combined Company since the merger and to determine to what extent this opinion was or was not justified;

(2) To attempt to measure the degree of consensus of that portion of the organization made up of members from the two previous organizations; and

(3) To try to determine the underlying causes for the results found.
I. THE PROBLEM

This was a situation in which an Eastern organization, Company B, which had been in business for over fifty years and was making moderate profits, and a Southwestern organization, Company A, which had been in business for ten years and was making excellent profits, were merged in 1960. The merger was considered at that time by all to be of mutual advantage, in that it would add both stability and capacity for growth to the new organization. However, in two years, the new company underwent a series of setbacks that succeeded in undermining the success of both of the previous companies.

The problem in this study was to test three hypotheses in order to determine their validity. These hypotheses were:

(1) A significant factor leading to the economic crises of the organization was the incompetency of key officials (most specifically, Mr. B. Baker, Jr.);

(2) A significant factor leading to the economic crises of the organization was the inability of either or both of the predecessor organizations to change their normative structure to meet the needs of the new organization; and
(3) The problem was due primarily to the inability of members to cope with the increased organizational size.

II. PROCEDURE

A variety of methods was used to gather the data presented in this study. These included interviews, official documents, correspondence, and questionnaires.

Interviews, Official Documents, and Correspondence

Much of the historical data pertaining to this organization were taken from interviews held with members of both organizations. Technical facts were taken from official documents of the organization. Further information was developed as a result of correspondence with specific individuals.

Questionnaire

The questionnaire was prepared with the purpose of measuring member attitude in five significant areas. These were:

(1) feeling regarding merger,
(2) group satisfaction,
(3) individual satisfaction,
(4) future of the organization, and
(5) desire to fix blame for past organizational ineffectiveness.

Sixteen questions were prepared and given ratings from one to five; one being the most negative rating possible, and five being the most positive rating possible. The questionnaire was administered to twenty-two persons.

Limitations

Because of time and space limitations, many statistical tests on the data were not run as they normally would be. Most specifically, no pretesting was performed to determine the validity of the questionnaire and the equi-distant values of the derived scale for grading the responses. A third limitation is that the sample used for the questionnaire cannot be considered reliable in measuring the attitude of the entire organization, as it was administered only to persons located in the general offices in the Southwest. However, since this is the headquarters of the organization, it is considered to be generally reliable in respect to the attitudes of that part of the organization that determines policy and controls operations.

III. HISTORY OF THE ORGANIZATION

For purposes of furthering insight into the present organization, it was decided to describe briefly the history.
of the two predecessor companies. The discussion will then shift to the history of the present organization.

Company A

Company A was founded in June of 1950 by Mr. A. Arthur. His original purpose was the brokerage of oil country tubular goods and casing, that is to say, to act as the middleman between the manufacturer and the end user in the sale of equipment. In the same year, he brought in as a full partner his uncle. The two men invested a total capital of $26,000. As the company grew, the original purpose was modified to include not only brokerage, but manufacturing and service activities. The new purpose was reflected in the building of two large manufacturing plants and in the development of a fully integrated service organization. By 1960, the company was active throughout the United States and in South America, and had grown from the original $26,000 investment to an organization worth approximately $2,000,000. The organization had expanded from a beginning of three people to one that numbered approximately 300. Table 1 shows the names, relationships, ages and years of service of some of the key personnel of Company A in 1960.

During its ten years of existence Company A had undergone continued growth and expansion. This rapid growth and
TABLE 1. KEY PERSONNEL AND RELATED DATA - COMPANY A.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Age</th>
<th>Years of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Arthur</td>
<td>President</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td>A. Jackson</td>
<td>Vice President</td>
<td>61</td>
<td>10</td>
</tr>
<tr>
<td>A. Simmons</td>
<td>Vice President and Treasurer</td>
<td>55</td>
<td>8</td>
</tr>
<tr>
<td>A. Jones</td>
<td>Vice President</td>
<td>55</td>
<td>7</td>
</tr>
<tr>
<td>A. Brown</td>
<td>Vice President in Charge of Sales</td>
<td>57</td>
<td>4</td>
</tr>
<tr>
<td>A. Olson</td>
<td>Secretary and Assistant Treasurer</td>
<td>27</td>
<td>7</td>
</tr>
<tr>
<td>A. Stanley</td>
<td>Production Manager</td>
<td>46</td>
<td>8</td>
</tr>
<tr>
<td>A. Burns</td>
<td>Vice President</td>
<td>38</td>
<td>6</td>
</tr>
<tr>
<td>A. Arnold</td>
<td>Plant Manager</td>
<td>42</td>
<td>7</td>
</tr>
<tr>
<td>A. Carlson</td>
<td>Salesman</td>
<td>61</td>
<td>1</td>
</tr>
</tbody>
</table>

expansion shown in the form of extensive capital accumulation, continuous personnel growth (both as to number of employees and opportunity for advancement), expanding sales volume and high profits. The company enjoyed a favorable reputation among its major customers, which included all of the major companies in its industry, and a reputation for quality of service and ethical conduct.

Company B

Company B was founded in 1907 as a supply firm. Its purpose was to supply material and equipment. Company B's existence was fostered by its proximity to the industry it
supplied which was undergoing a boom period. By 1920, its operations had grown to include servicing of a seven-state area. It is interesting to note that this great expansion period from 1910 to 1920 set the pattern for this company as it existed in 1960. That is, although during the years from 1920 stores were closed and opened, depending on requirements, the sections of the country that were established as areas of influence in 1920 remained virtually the same in 1960.

The founding impetus and management of the company was centered in two individuals, Mr. B. Baker and Mr. B. Brown, both of whom were highly active and considered to be the mainstays of the business. It was during their period that all the territorial expansion of the company was made. Upon the death of Mr. B. Brown, Mr. B. Baker took over full management of the company, although the B. Brown family maintained its stock. Upon the death of Mr. B. Baker in 1929, his son B. Baker assumed the management of the business. During his reign until 1951, Mr. B. Baker retained the same territorial organization as his father and confined his activities to the building of sales within the existing territories.

In 1951, B. Baker, Jr. became the president of Company B. Mr. B. Baker had seven years' experience with the company prior to becoming president in 1951.
Table 2 shows the names, title, ages and years of service of ten Company B employees of various rank.

**TABLE 2. KEY PERSONNEL AND RELATED DATA - COMPANY B**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Age</th>
<th>Years of Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Baker, Jr.</td>
<td>President</td>
<td>40</td>
<td>14</td>
</tr>
<tr>
<td>B. Cox</td>
<td>Vice President, Finance, and Treasurer</td>
<td>56</td>
<td>24</td>
</tr>
<tr>
<td>B. Crane</td>
<td>Vice President, Operations</td>
<td>59</td>
<td>37</td>
</tr>
<tr>
<td>B. Miller</td>
<td>Director of Purchasing and Secretary</td>
<td>47</td>
<td>22</td>
</tr>
<tr>
<td>B. Jones</td>
<td>General Credit Manager</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>B. Williams</td>
<td>Texas District Manager</td>
<td>45</td>
<td>23</td>
</tr>
<tr>
<td>B. Phillips</td>
<td>Illinois District Manager</td>
<td>47</td>
<td>23</td>
</tr>
<tr>
<td>B. Smith</td>
<td>Eastern District Manager</td>
<td>46</td>
<td>10</td>
</tr>
<tr>
<td>B. Harold</td>
<td>Personnel Manager</td>
<td>39</td>
<td>15</td>
</tr>
<tr>
<td>B. Young</td>
<td>Internal Auditor</td>
<td>42</td>
<td>9</td>
</tr>
</tbody>
</table>

Upon extensive interviews with the personnel shown in Table 2, as well as other personnel of Company B in 1959, the writer evolved the following background on the company and its people:

At the time that Mr. B. Baker, Jr. became president of the firm in 1951, he considered himself to be grossly incompetent for the position in terms of experience. Therefore, he relied heavily on three of his executives at that time. They were: B. Lawrence, Executive Vice President, B. Cox, Secretary and Treasurer, and B. Banks, General Sales Manager. B. Lawrence retired in 1958 and was replaced
by B. Crane. B. Banks passed away in 1959, and the company deemed it unnecessary to replace him at this time. Therefore, at the time of the merger, Company B did not have a general sales manager. It is interesting to note that with the retirement of Mr. B. Lawrence and the demise of B. Banks, Mr. B. Cox began to play a very dominant role of influence over B. Baker, Jr. As a matter of fact, many of the employees agreed informally that B. Cox was the controlling influence in the policy of Company B from the time of Mr. B. Banks' death to the merger of 1960.

**Pre-merger History**

Table 3 shows the ownership control of each of the organizations immediately prior to the merger and immediately thereafter. In Company B, control rested in the hands of the Baker and Brown families, while in Company A, control rested in the hands of A. Arthur and A. Jackson.

Based on doctor's orders, A. Jackson was attempting to retire from the business and desired to sell his interest in the company. He further desired cash payment and, therefore, did not consider a proposal on the part of A. Arthur to purchase his stock on an installment basis. Company B had, through the years, accumulated a residue of cash and was looking for ways and means to invest this cash for purchase in some business corollary to its present activities.
Mr. B. Baker heard of Mr. A. Jackson's desire to sell to a third party and made contact with him regarding the possibility of entering negotiations. He stipulated, however, that the only basis upon which Company B would show any interest would be under the conditions of absolute control. Although Mr. A. Arthur was dubious about considering such a proposal, he was willing to enter negotiations on a preliminary level.
After having examined the entire Company A proposal, Mr. B. Baker made a number of comments, as herein recorded:

1. A marriage of these two companies would create mutual benefits in that Company B could lend its liquid cash position to that of Company A, who always had a critical cash problem due to its continuous growth; and Company A could lend its dynamic leadership and drive to Company B, which had become stagnant.

2. The products manufactured by Company A could be distributed through the stores already owned by Company B.


Mr. B. Baker was alarmed about the lack of aggressive attitude within his organization and felt that it needed a rejuvenation such as Company A could give it. In order to accomplish this, he was willing to step down in the merged company to second in command, although he would hold the title of president. He would allow A. Arthur as chairman of the board of the merged companies, to be the active chief executive within the company.

Based upon the assurance of managerial control and due to the pressures exerted by Mr. J. Jackson, Mr. A. Arthur
relented and agreed to the merger, which was consummated on March 31, 1960. At that time, Mr. A. Jackson's stock was purchased for cash and the remaining stockholders were distributed Combined Company stock in return for their holdings in each company. At this point, it might be well to clarify the fact that Mr. B. Cox controlled power of voting rights of the B. Brown stock and, therefore, he and Mr. B. Baker constituted actual control over the newly organized Combined Company. At the time of the merger, all of the personnel shown on Tables 1 and 2 were active in the new company in at least equivalent positions, or, in some cases, higher jobs than they had held previously. In August of 1960, Company B closed its general offices in the East and moved to Company A's headquarters in the Southwest. At this time, its activities and those of the old Company A were combined into one administrative organization.

**Historical Development Since Merger**

The period from March through August, 1960, was one in which the companies operated much as they had prior to the merger, due primarily to the geographical dispersion of the two main offices.

Almost immediately upon combination of the offices, a policy conflict began to develop between A. Arthur and B. Cox. This conflict developed much along the lines of
the policies of the predecessor companies. It was Mr. A. Arthur's contention that the company would have to maintain an aggressive and fast-moving organization, while Mr. B. Cox contended that the company should follow a policy of slow, well-controlled, methodical movement. Mr. B. Baker, not wanting to choose sides, attempted to stay clear of the argument, and Mr. A. Arthur, exercising his prerogative as chief executive officer, began to carry out actively his policies in the integrated company. However, he found his efforts thwarted at every turn through indirect means by activities originated by B. Cox. The result was confused activity and conflict, which permeated throughout the organization.

In February of 1961, Mr. A. Arthur forced the issue by requesting the resignation of B. Cox. At this point, a decision on the part of Mr. B. Baker became necessary, as he held the balance of power. His decision was made in favor of Mr. B. Cox. Arrangements were made to purchase Mr. A. Arthur's stock and his resignation was accepted. Mr. A. Simmons was asked to resign at the same time.

After the resignation of Mr. A. Arthur, it was decided by management to sell the company's facilities in the East, thus eliminating all the Eastern activities. These facilities were sold to Mr. B. Crane, Mr. B. Phillips and Mr. B. Smith, the managers of those facilities in 1961.
and the first half of 1962, the company underwent three major reorganizations, the results of which were that Mr. A. Jones, Mr. A. Stanley, Mr. A. Burns and Mr. A. Carlson resigned. (Interestingly, all of these men and A. Arthur went into activities directly competitive with the Combined Company.)

In the summer of 1962, A. Olson was asked to resign by B. Cox, due to a policy conflict in the operation of the administrative offices. At this time, Mr. B. Baker chose to reverse this decision and requested instead, the resignation of Mr. B. Cox. At this time Mr. A. Olson was placed in direct charge of all general office and accounting activities. Mr. A. Olson resigned his position in October, 1962, to be effective in December of that year. His reason for leaving was due to a commitment which he had made at the time that he was asked to resign and which he felt that he should keep.

Table 4 reflects some of the activities of the Combined Company and its predecessor companies for a period of six years. Management was quick to blame the troubles of 1961 and 1962 on unfavorable business conditions in the industry; however, little evidence can be found to support this claim. To the contrary, the fact that many ex-employees had gone into successful competitive activities
would indicate that there was definite potential in the industry.

TABLE 4. OPERATING STATISTICS OF THE COMBINED COMPANY AND PREDECESSOR COMPANIES FOR A SIX-YEAR PERIOD

<table>
<thead>
<tr>
<th>Fiscal Year Ended August</th>
<th>Sales (Dollars)</th>
<th>Net Profits Before Taxes (Dollars)</th>
<th>Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>18,040,959</td>
<td>12,721,778</td>
<td>864,980</td>
</tr>
<tr>
<td>1958</td>
<td>8,325,877</td>
<td>9,826,419</td>
<td>11,321</td>
</tr>
<tr>
<td>1959</td>
<td>13,462,724</td>
<td>11,116,017</td>
<td>662,789</td>
</tr>
<tr>
<td>Combined Company</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>14,733,032</td>
<td></td>
<td>453,659</td>
</tr>
<tr>
<td>1961</td>
<td>17,842,938</td>
<td></td>
<td>(1,072,543)</td>
</tr>
<tr>
<td>1962</td>
<td>11,411,364</td>
<td></td>
<td>(651,926)</td>
</tr>
</tbody>
</table>

In summary of the activity to the beginning of 1963, the company had undergone a number of important changes, the effects of which were:

1. In two years, the company had reduced its personnel by 60 per cent;
2. Of the Company B personnel shown in Table 2, six persons remained;
3. Of the Company A personnel shown in Table 1, two persons remained;
(4) The company was sustaining losses at the rate of $75,000 per month;
(5) The company's activity had receded from one of national import to one of limited regional activity.

IV. RESULTS

The research leaves no doubt that the normative structure of Company A and Company B differed significantly. Company A had a philosophy of aggressive action, in which climate management was willing to chance a risk in light of a potential gain. This philosophy could be easily seen in terms of the company's policies regarding credit, expansion, inventory, acquisitions, decentralization of authority, limited control procedures, and many other factors.

On the other hand, Company B's policy showed a strong tendency for highly conservative activity. This was reflected in restrictive credit policy, rigid inventory control, minimum expansion programs, centralized authority, centralized control procedures and a number of other obvious indicators. It is highly probable that a great deal of over-rigidity had developed in the 1950's due to the instability of the executive group in the company during that period.
By his own admission at the time of the merger, Mr. B. Baker had recognized the problem of his company and believed that the merger would relieve the situation. However, the dominant role of Mr. B. Cox in Company B carried over into the new organization, and his influence (informal) over Mr. B. Baker continued. At the same time, with some restrictions, the executives of Company A were led to believe that their policies would prevail in the new organization. Mr. B. Baker had stated formal allegiance to one group while retaining actual allegiance to another group—each group being in conflict with the other in the area of major policy.

It is a relatively simple matter to interpret from the preceding history section what the results were. For one thing, two separate normative structures prevailed for better than two years. The group in most favor (having most influence) with Mr. B. Baker at any point in time prevailed, while the other group went underground. As a result of this conflict, many competent members of the organization left for "greener pastures". More Company A personnel left than Company B personnel, but this can be explained by other factors than which group became more disgusted. In the first place, an examination of Table 2 reflects that the ages and years of service of the Company B personnel
are such that they were, in effect, locked in.* Secondly, the Company A personnel were better acquainted with employment potential in the area than the Company B personnel who had only been in the Southwest for two years.

These results were all derived from sources other than the questionnaire. An examination of the results from the questionnaire further substantiates many of the previous findings. Table 5 shows the five attitudes measured. Eight persons from each of the predecessor companies responded and six persons chose not to respond for personal reasons. An item analysis using the critical ratio indicates that the groups differed in the expected direction. In every case except one, the finding was statistically significant at the .01 level or above. Question six was statistically significant at above the .02 level. Figure 1 is a graphic presentation of the mean response of each group for the sixteen questions asked.

In all cases, the Company A respondents (Group A) answered in a negative manner, whereas the Company B members (Group B) answered in a positive manner in every case except Questions 4, 5, and 7. Questions 4 and 5 dealt with the tendency to blame key officials for the past difficulties, and Question 7 dealt with individual job security.

*They participated in a pension program from which no benefits could be derived unless they were with the firm at the age of 65. The Company A program had no such provision.
TABLE 5. RESULTS FROM QUESTIONNAIRE PRESENTED TO 16 EMPLOYEES OF THE COMBINED COMPANY

<table>
<thead>
<tr>
<th>Attitude Being Measured</th>
<th>Question</th>
<th>Mean Response</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Group A</td>
</tr>
<tr>
<td><strong>Feelings Regarding Merger</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Positive results gained from merger</td>
<td>3</td>
<td>1.0</td>
</tr>
<tr>
<td>Benefit to Group A</td>
<td>8a</td>
<td>1.2</td>
</tr>
<tr>
<td>Benefit to Group B</td>
<td>8b</td>
<td>2.2</td>
</tr>
<tr>
<td>Approval of merger</td>
<td>16</td>
<td>1.0</td>
</tr>
<tr>
<td>Mean</td>
<td>--</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Group Satisfaction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opinion of dominant membership feeling</td>
<td>6</td>
<td>2.2</td>
</tr>
<tr>
<td>Opinion of cooperation among members</td>
<td>9</td>
<td>2.2</td>
</tr>
<tr>
<td>Mean</td>
<td>--</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Individual Satisfaction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td>7</td>
<td>1.6</td>
</tr>
<tr>
<td>Enjoyment of job</td>
<td>10</td>
<td>2.3</td>
</tr>
<tr>
<td>Mean</td>
<td>--</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Future of Organization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present opinion</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>Present opinion</td>
<td>11</td>
<td>1.7</td>
</tr>
<tr>
<td>Corporate stock potential</td>
<td>14</td>
<td>1.2</td>
</tr>
<tr>
<td>Present opinion</td>
<td>15</td>
<td>1.5</td>
</tr>
<tr>
<td>Mean</td>
<td>--</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Desire to Fix Blame for Past Ineffectiveness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upon some segment of organization (general)</td>
<td>1</td>
<td>1.6</td>
</tr>
<tr>
<td>Upon key officials (specific)</td>
<td>4</td>
<td>1.0</td>
</tr>
<tr>
<td>Upon key officials (specific)</td>
<td>5</td>
<td>1.0</td>
</tr>
<tr>
<td>Upon some segment of organization (general)</td>
<td>12</td>
<td>1.4</td>
</tr>
<tr>
<td>Upon key officials (specific)</td>
<td>13</td>
<td>1.0</td>
</tr>
<tr>
<td>Mean</td>
<td>--</td>
<td>1.2</td>
</tr>
</tbody>
</table>
FIGURE 1. GRAPHIC PRESENTATION OF MEAN RESPONSES FOR GROUPS A AND B FOR EACH OF THE SIXTEEN QUESTIONS ASKED
V. DISCUSSION

There can be little doubt from the evidence obtained that Mr. B. Baker was ineffective in his position. The fact that he was subject to constant indecision and swayed in his judgment by the influence of those who happened to be close to him at the time must, in our opinion, be considered the root of the Combined Company's problems. Because of his inability to "muster the forces", so to speak, and to develop one cohesive unit out of two previous separate units, much frustration, insecurity and conflict have permeated throughout the organization. The results are reflected in a number of ways. Certainly, one of the results that is far from insignificant was the loss of $1,200,000 in a two-year period of time. However, in addition to this, the organization lost a large number of its key officials and effective subordinates. Possibly the fact that Mr. B. Baker took a stand in the summer of 1962 and terminated Mr. B. Cox could be construed as an indication that he had finally recognized his responsibilities and was beginning to take the steps necessary to build an integrated organization.

The second hypothesis would also seem to hold true. Certainly, as reflected by the data shown in Table 5 and pictured in Figure 1, there were, at the time of the
analysis, two distinct and separate attitudes regarding a number of factors, and the attitude each person had seemed to depend upon which of the predecessor groups the member belonged to. From the data in Table 5, it can readily be seen that the members from Company B (Group B) felt that positive results had resulted from the merger, whereas, the Company A members (Group A) had consistently negative attitudes regarding any good effects as a result of the merger. However, as reflected in the measurement of group satisfaction and individual satisfaction, Group B was less willing to show a positive attitude in this regard. This would indicate a feeling on the part of Group B that ultimately the merger would have positive results, but at this time, there was some dissatisfaction within the group, while Group A was completely negative in all these measurements. It comes as no surprise after examining the results of the first three attitudes measured that Group A was negative in its feeling toward the future of the organization, while Group B had a positive attitude toward the organization's future. This then would be additional reason why more members from Group A had left the organization than those from Group B. A fifth attitude measured, that of willingness to place blame for the problems of the past two years showed some willingness on the part of Group B employees
to admit blame on the part of key officials of the organization. The Group A employees were quite specific in fixing the blame upon key officials.

VI. SUMMARY

The data support the hypothesis that the key officials, most specifically, Mr. B. Baker, were primarily responsible for the ineffectiveness of the past two years. It also supports the hypothesis that although through time, there had been some modification, there still seemed to be two normative systems active within the organization, one in conflict with the other. The third hypothesis, pertaining to the inability to cope with the increased size of the organization, was not felt to be a valid hypothesis in this particular case. Although it may have been a factor, there was too much evidence to support the conclusion that the ineffectiveness of the organization was the result of incompetent leadership and the inability to develop an integrated normative system, and that these were not brought about because of increased organizational size. In any event, if this had been a problem, the reduction in personnel and business activity would have been the cure, and the organization would have returned to effective operation, which was not the case.
VII. CONCLUSIONS

Every group is characterized by an informal group structure, which is built around three factors. These are: interpersonal communications, feeling toward other members of the group, and normative consensus. If all three of these factors are positively correlated, they will lead to a more effective group. Any one of these factors tends to generate the other two. In other words, any one acts as a reinforcer upon the other two in such a way that increased intensity in one will lead to an increased intensity in the other two. This cyclic effect can develop either as a positive reinforcer or a negative reinforcer so as to result in a more effective or less effective group.

A review of what has preceded in this study quickly reflects the fact that this cyclic phenomenon had become a negative reinforcement mechanism in the Combined Company. The fact that both groups tended to retain their identity after two years of interaction indicates that the communication and development of positive feelings between these groups had not been effective. Corollary to this is the fact that each group seemed to maintain its own individual normative structure in opposition to the other. Failure to achieve success, whether resulting from the internal conflict or independent of it, added further to the gap between them. A correction of this problem would demand as a
prerequisite, the reversal of this cycle. That is, communications between the groups would have to become effective, positive feelings toward members of the other groups would have to be enhanced, and a mutually congenial normative structure would have to evolve if a unified organization were to be achieved.

Based on findings, it is the writer's opinion that no equitable solution to the problem of this organization would be found until the emergence of effective formal leadership for the Combined Company. Unless this were achieved, the machinery could not be established to develop one cohesive organization unified in its objectives and membership interaction. Such leadership would be necessary to the development of a program whereby the intergroup conflicts could be eliminated. This would require (1) the establishment of effective communication (viewed in the same frame of reference) between members of the organization, (2) the development of positive feelings between members of the organization in regard to their mutual needs and in regard to the requirement of effective cooperation and coordination toward the achievement of a joint purpose, and (3) effective leadership to unify the normative structures of the two groups into one mutually acceptable system.

Only when central leadership was developed that would effectively activate the above program could the necessary
cohesiveness be achieved. Then and only then could the organization expect to regain the competitive effectiveness which is so necessary in the industrial environment. Whether Mr. B. Baker could eventually rise to the occasion was a matter of conjecture. Unless he did, the only other hope for this organization would be for Mr. Baker to take the steps necessary to bring into the organization the effective formal leadership components that were required.
APPENDIX D

COMPANY SURVEY CHECK LIST
APPENDIX D

COMPANY SURVEY CHECK LIST*

General

1. History of business
2. Description of corporate structure
3. List of officers and directors, their affiliations and background
4. Stock distribution - number, principal holders, etc.
5. Organization chart
6. Policy manual
7. Extent of integration of company - can it expand vertically
8. Philosophy of management on matters such as growth, industrial relations, organizational planning, industrial engineering, merchandising, educational selling, advertising, accounting and budgeting, research, development engineering, product design, etc.
9. Can we evaluate company ourselves or must we hire outside consultants for personnel analysis, market

research, or any other factors?

10. Are there any legal problems peculiar to the company, its products, or the industry?

11. What is company's philosophy or policy on dividends, financing expansion, finances in general?

12. What consulting firms have been or are being retained by the firm?

13. How are relations with the community?

14. What is policy concerning patent protection?

15. Are any major capital expenditures authorized at present?

16. Are any major capital expenditures contemplated in the near term, long term?

17. Are company's name and trademark well known? Are they confusingly similar to any other firm's name and trademark?

18. What did company manufacture during World War II?

19. How did company do during depressed times of the 1930's-49?

**Financial**

1. Financial statements for the last ten years
   a. Balance sheets
   b. Profit and loss and surplus statements

2. Projected operating and financial statements
3. Breakdown of inventory as to raw material, work in process, finished goods
   a. Any change in this mix through the years?
   b. How is inventory carried - average cost, Lifo, Fifo, etc.?
4. Details of prepaid expenses
5. Detail of property, plant and equipment
   a. Any buildings partially completed or under construction?
   b. Any machinery or equipment under construction?
   c. Any leased machinery or equipment? (If so, details concerning quantity, terms of lease, contingent liability, etc.)
   d. Any emergency plant facilities? If so, amount and is fast write-off on books or for tax purposes only?
6. Details of intangible assets including cost of patents and method of amortization
7. Short term loans - interest rate, due date, security if any, etc.
8. Is short term financing used which does not show on annual statements? Explain
9. Long term loans - interest rate, payment dates, pre-payments penalty, security, restrictions on working capital and dividends, etc.
10. Details of reserves and capital surplus
11. Federal income tax status - credits, loss, carryovers, etc.
12. Details of unrecorded or contingent liabilities
13. Sales and cost of sales by product classification
14. Details of nonmanufacturing costs such as selling, advertising, research, etc.
15. Sources of "other income" - royalties, rent, etc.
16. Details of "other deductions" - interest, royalties and fees, etc.
17. Details of any "strange" items on financial statements
18. Extent of management control techniques used - budget, standard costs, etc.
19. Extent of machine accounting - IBM, integrated data processing, etc.

Sales

General
1. List and evaluate sales personnel - management, inside and outside sales people, advertising, etc.
2. Describe methods (channels) of distribution
3. Are any changes in method of distribution contemplated?
4. Complete list of branch offices, warehouses, service facilities
5. Who are consumers; list and give locations
6. What is the company's geographic distribution of sales, salesmen?

7. Breakdown by size ($) of orders received annually

8. Does company formalize market surveys? Use consultants?

Advertising and Promotion

1. What is the extent, type, quality and media of the company's past and present advertising program? How does this compare to advertising done by competitors of the company?

2. What is the present status of catalogs, price sheets, sales tools, sales engineering data, service manuals and parts lists? How does this compare to like material put out by competitors of the company?

3. Does the company participate in trade shows? Do the company's competitors participate in trade shows?

4. How are publicity and public relations handled by the company? How does this compare to the programs handled by the company's competitors?

Competition

1. What is the competitive position of the company?

2. Who are the company's competitors?

3. By line, what share of the market does the company hold?
4. To what extent do unrelated products indirectly compete with company's product?

5. Do competitors have any natural advantages over this company (location, shipping facilities, priority to raw materials)?

6. What recognizable advantages do company and products have over each competitor and their products?

7. What recognizable advantages do competitors and their products have over this company?

8. To what extent is there competition from the so-called "back alley" or "garage" shops?

9. Do competitors' merchandising methods differ from company's? Explain

International Aspects

1. What is the present foreign market? What is its potential foreign market?

2. Does the company have any plants or licenses abroad? Where? What are the terms?

3. Has advertising made the company's trade names known abroad?

4. Is foreign competition a threat?

The Product

1. List product lines with description and history

2. Volume of each item or line
a. Each of past five years
b. Budgeted for this year
c. Present backlog
d. Future outlook (present and new fields)

3. What is the life of the product? Is it consumable?
4. How much of annual sales are supply and repair orders?
5. Are any items or supplies purchased for resale? If so, what is the volume and characteristic markup of each?
6. List patents and licenses giving life and degree of exclusivity
7. What emphasis does the company place on industrial design and packaging?
8. For the past five years how were the sales broken down by industry (chemical, foods, etc.)?
9. Do products and facilities have possibilities in the consumer field as well as the industrial field?
10. Do products and facilities lend themselves naturally to other products and new fields?
11. Are there possibilities of using the company's products in the great "new growth" industries - atomic energy, electronics, automatic controls and materials handling?
12. Will any foreseeable events bring technological obsolescence to the company's industry or any of its products? Review past, current and prospective
technological trends with relation to company's products, its customers and its competitors

13. What is the ability of the company to supply present demands - anticipated demands?

Engineering and Research

1. Number and grade of engineers, production and development
2. Evaluation of engineers and their specialties
3. Evaluation of designs (particularly as to possible improvements)
4. What developmental projects are being carried on at present - any new products?
5. Description and condition of facilities - drafting room, laboratory, etc.
6. Research personnel - number, grade and evaluation
7. Applied or basic research?
8. Description and condition of facilities
9. Any research projects contracted out?
10. Any special experimental or test equipment?

Manufacturing

1. List and evaluate the key manufacturing people of the company and their jobs
2. Give a description and layout of the plant and its property
3. What are the possibilities for plant expansion?
4. What transportation facilities are available?
5. Is water or power supply adequate? Is waste disposal a problem?
6. What raw materials are used?
   a. Where are they obtained?
   b. Is supply limited?
   c. What is relation of cost to sales?
7. Give a description of manufacturing facilities and processes in general
8. Extent to which plant and facilities are used - any unused capacity, machines or departments?
9. List of principal machine tools giving age and condition of each
10. List of other company operated equipment (trucks, ovens, welding machines, etc.) What is the condition of each?
11. Are any manufacturing processes patented or licensed? If so, describe as to term of each agreement and exclusivity
12. Are there any changes in production techniques advisable or contemplated?
13. What are hazards of production process?
14. Does the company have any of its work jobbed out?
15. Are sales seasonal or cyclical? If so, does production
follow or can stocking and production control smooth out fluctuation?

16. How is production controlled or scheduled?
17. How is inventory controlled?
18. Extent and quality of industrial engineering - standards, methods analysis, quality control, operation sheets, etc.

Personnel

1. Number, sex, age of labor force
2. Breakdown of personnel by direct, indirect labor, by department
3. Breakdown of labor force as to length of service
4. Are employees paid on hourly or piece rates?
5. What is minimum, maximum and average wage?
6. Description and cost of fringe benefits (insurance, vacation and holiday policy, pensions, etc.)
7. Are incentive, profit sharing or stock purchase plans in force? Explain
8. How do wages and salaries compare with competition and other industries in the community?
9. What degree of skill is required?
10. Has there been any difficulty in obtaining labor?
11. Has there been any unusual turnover of personnel in any division of company?
12. What is union affiliation?
13. Is a written labor contract available?
14. What is history of labor relations?
15. What schools, courses, conferences or clinics are personnel sent to?
16. Give salary structure of key personnel (officers, salesmen, engineers, factory management, etc.)
17. Are aptitude or psychological tests used in hiring personnel?
BIBLIOGRAPHY

Books


**Dissertations**


Reid, Samuel Richardson. *Corporate Mergers and Acquisitions Involving Results and Administrative Policies and Procedures.* St. Louis University, 1961-62.


Newspapers


**Articles and Periodicals**


_____________________. "How Many Needed to Get Job Done?" Steel (October 24, 1960), p. 65.


___________. "When Managerial Styles Clash,"

___________. "When Mergers Don't Pay Off,"


Publications of the Government, Learned Societies, and Other Organizations


Unpublished Materials


Tosi, Henry L. "Determinants of Organizational Climate." Notes on a paper submitted to Professor R. C. Davis, Management 834, The Ohio State University, April 16, 1963.

Other Sources

Davis, Ralph Currier. Class Notes from management theory seminar, November 4, 1963, The Ohio State University, and interview in Chicago, December 30, 1964.

Stogdill, Ralph M. Class Notes from seminar in organization theory, Spring Quarter, 1963, The Ohio State University.