

## **MERGER AND ACQUISITION IN THE TELECOMMUNICATION SECTOR OF BANGLADESH: A CASE STUDY APPROACH**

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### **ABSTRACT**

This paper tries to answer two important questions. Does leadership communication play a role to mitigate the aftermath effect of merger and acquisitions? How do different cultures between the firms influence the employee level to achieve organizational integration. The paper addresses these questions by drawing on the resource-based view and social exchange theory. The financial benefit of synergy realization has always been the issue, but the synergistic benefit of human resources has been one of the most trivial issues, and sometimes it is not possible also because the apparent outcome of M&A on human resources has always been a complex issue. Here we have looked upon an international takeover in the telecommunication industry in Bangladesh by a Malaysian giant. In this case study approach, we have in-depth interview procedures in four different departments of the firm, which are most likely to face the hectic effects of the post-merger implementation. Data will be processed and analyzed by applying content analysis. Two groups of companies regarding the focus of resources and capabilities in M and A transactions and those with a tangible-intensive profile that physical assets were considered sought-after and strategic and those characterized with an intangible-intensive profile that de-emphasized capacity. The adoption of an M and A strategy effectively enabled the expansion of the portfolio of products and services offered to customers in plain sight, but the human implications at the employee level are quite complex and do not always follow the traditional integration model for M and A.

**Keywords:** 1( Merger 2) Telecommunication 3) Bangladesh

### **1. Introduction**

Mergers and acquisitions have increased in the past few decades to capitalize on strategic positions in the industry and to uplift organizational performance (Andrade, Marks, and Stafford, 2001; Daly Poudel and Kabanoff, 2004). Competitive forces like entering into new markets, associated development costs and even hedge against environmental risks and volatility have also been significant reasons behind M&As (Hemmeriks and Duysters, 2007).

But undoubtedly, mergers and acquisitions have been complex events in the organizational life, which we rarely have a complete and holistic idea about (Larsson and Finkelstein, 1999). Failures in many merger and acquisition deals over the years have also been increasing. Some researchers have noted that it is possible for a “well-done” post-acquisition integration to hurt the merged entity’s performance (Shaver, 2006). Yet, mega mergers and acquisitions have increased tremendously during the last decade (Lakshman, 2011) and the research is mainly focused on the economic and financial outcomes (King, Dalton, Daily and Colvin, 2004) while the impact of mergers and acquisitions on the human resources of the both companies has received less attention. Integration attempts

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are usually associated with the Human Resources (HR) function of organizations, which is typically thought of as being critical for the success of integration in MandAs (e.g., DeNisi and Shin, 2004; Weber, Shenkar and Raveh, 1996). Statistically, one third of the employees worldwide have to face the consequences of merger or acquisition during their careers (Hubbard, 1999).

The synergy realization of merger and acquisition has always looked upon the economic and financial outcome of the corporate amalgamation. It has rarely look upon the human aspects of the merger and acquisition. The process of combining between the firms involves negative effects like increased stress, anxiety, turnover and layoffs (Amoit, Terry, Jimmieson and Callan, 2006; Marmenout, 2010; Rafferty and Restubog, 2010). But, the synergy realization is mainly focused towards financial outcomes not only because the financial outcome is crucial in terms of combination purposes of the firms but the human aspects are really complicated in terms of assessing and the integration in terms of machinery, knowledge and market share is lot more easy to evaluate than the complex human behaviors specially when the degrees of socio cultural context is totally different between the firms.

The integration model overtly describes the combination potential, the interaction in the integration process and the human resistant perception in the process of synergy realization. The integration model is a very different approach from the tradition way of getting into merger and acquisition of the organization and it depicts that the synergy is realized on its degree of synergy rather than any other accounting or financial leverage, the key attributes are conceptualized in terms of combination potential and even the cogency in the production and marketing complementarities between the two businesses and also empirically, the synergy is realized on the strategic potential between the two combined firms (Larsson and Finkelstein, 1999).

From the case study analysis of the synergy realization (Larsson and Finkelstein, 1999) the organizational integration is the single most important factor determining the synergy realization which comprises both the socio cultural integration and the task integration (Birkinshaw, Bresman, and Hakanson, 2000). But the main difference between the two integration is the human integration (shared identity) and the perception of the employees towards the merger and acquisition. Several factors have influence the merger and acquisition outcome from the financial point of view but the most inexplicable and difficult outcome is the human integration (Larsson and Finkelstein, 1999) because the cultural differences prevails and it is one strong causal factor when combining to firms are of different cultures (Child, Faulkner and Pitkethly, 2001 ; Hitt, Harrison and Ireland, 2001).

### **Problem Statement**

Although HRM practices are prerequisite to organizational performance and competitive advantage, least number of researches were done in HRM practices in Bangladesh and developing countries (Absar, Azim and Akhter, 2010).

Ineffective human resource management is one of the most major bottleneck in the industrial sectors of Bangladesh and HRM practices such as HR planning, recruitment, performance appraisal, compensation, industrial relations etc are not performed maintaining proper standard. (Shelly, 1994).

Out of the 92 large and medium business enterprises in Dhaka, Bangladesh being surveyed, only 62% have a separate HR/IR department, 96% has training programs, and 91% have performance appraisal system for above par performance. Employee pension plan is the least prevalent practices among all (Moyeen and Huq, 2001). Low wage rate and labor productivity due to unsystematic recruitment, low financial capabilities and inadequate training facilities with equally low motivation to increase productivity (Mamun and Islam, 2001).

Bangladesh telecom, the world's 10th largest rapidly growing industry and currently is going through challenges that question the credibility of their survival in the highly competitive market ([www.btrc.gov.bd](http://www.btrc.gov.bd)). In recent years (2013-2016), despite Bangladesh telecom organizations in terms of number of subscribers are widely expanding as evidenced by a total of 128.939 million which was reported by BTRC ([www.btrc.gov.bd](http://www.btrc.gov.bd)), yet those organizations are struggling against massive challenges that constraint their sustainability due to managerial incompetence (Hogan, 1994) and leadership competencies (Pagon, Banutai, and Bizjak, 2008).

It is very difficult to predict the aftermath and benefits of having cultural differences between the firms (Stahl and Voigt, 2008) increased potential due to combination of firms, shared resources and capacity transfer during merger implementation. Either the combination will offset or exceed the impediments is the factor out here. Although the available evidence suggests that the poor task integration is a result of poor sociocultural integration and a 'blocked' sociocultural integration actually results in even poorer task integration.

Based on the social exchange theory, organizational leadership and communication during the merger and amalgamation of the two firms, may encourage the employees and it is viewed as a form of interactional fairness from the employee's point of view (Seo and Hill, 2005). Employees also particularly concerned about the changes in the pay, in the job, role, and even assignments. Changes in the performance evaluation systems, transfer to new job, new challenges, and in the career path also have a contribution in that (Wieckrmasinghe and Karunaratne, 2009).

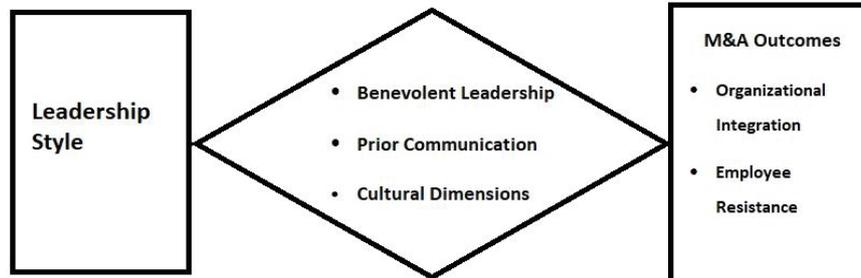
Company A and Company B, both of which are big names in the mobile operator industry in Bangladesh came to preliminary discussion of being merged during September, 2015 and aftermath of the requisite approval from the respective board of directors, the application was granted under section 228, 229 and companies act 1994 filed under High court Division, Supreme court, Bangladesh, on October 14, 2015 which was ultimately sanctioned on July 14, 2016 (Khan and Faisal, 2017). The decision leaves approximately 12 million USD as the merger fee, and spectrum charge of about 42 million USD to be paid by November 28, 2016, adjudged by the court to the acquiring company. Soon afterwards, Company A started the consolidation process and more than 200 executives of Company B (the acquired company) joined Company A while 137 employees left under Voluntary Retirement Scheme (VRS) and Company A took over all the business processes of Company B. Bangladesh Investment Development Authority announced Company A as the company that brought the highest amount of foreign direct investment to Bangladesh in the last five years. Currently, Malaysia based Company A has 91.59% stake in the MandA while Company C (from Japan) has the other 8.41% of the stake in possession (Robi Airtel complete merger, 2016). The merger consequences made the transferee company the second largest player in the industry after 'market leader' company. Based on individual capacities, Company A was at 3<sup>rd</sup> and Company B was at 4<sup>th</sup> in the industry (Khan and Faisal, 2017). As of August, 2016, market leader holds an active number of connections which is about 54.5 million while another company holds approximately 29 million and the combined entity of Company A and Company B is serving 32.2 million subscribers (Robi Airtel complete merger, 2016).

### **Research Questions**

1. how leadership communication actually helps to reduce employee resistance during merger and acquisitions in telecom industry of Bangladesh?
2. How cultural difference between the firms plays a role in the organizational integration.
3. What is the true context of human integration in the process of organizational integration?

## Research Objectives

1. To explore employees perception to leadership communication after merger and acquisition.
2. To develop a model which clearly defines the human integration during the merger and acquisition process.



## Organizational Leadership and Organizational Integration

Organizational leadership and communication can help ensure the merger goes according to plan and associated changes create less anxiety and stress for employee (DiGeorgio, 2003). When leaders communicate a clear vision of the organization following the merger, are attentive to employee concerns and communicate clear guidelines about the merger and associated changes, employees are more likely to view the merger as less stressful and feel they have more control (Appelbaum, Gandell, Shapiro, Belisle, and Hoeven, 2000). Acquisitions are an increasingly important strategic tool for attaining the external technological know-how to supplement internal RandD efforts in a timely manner (Chesbrough 2003, Ranft and Lord 2002, Vanhaverbeke et al. 2002). The degree of integration between joining firms may not only help realize synergies, but also embolden employees to resist the changes more actively (Larsson and Finkelstein, 1999). With the potential disruption of individual of individual careers, work groups and organizational culture comes resistance to change and the likelihood that organizational integration after MandAs will be met with employee resistance and noncooperation (Blake and Mouton 1985, Lawrence 1969, March 1981, Schein 1985). A realistic merger preview can reduce employee uncertainty (Schweiger and DeNisi 1991) and workshops that communicate the logic and rationale for the merger have been found to reduce negative feelings (Leroy and Ramanantsoa, 1997). The communication begins the social exchange relationship that leads employees to view the merger favorably, which may, in turn, positively influence employee extra-role performance (Buiter and Harris, 2013).

## Organizational Leadership and Employee Resistance

Research on mergers and acquisitions has tended to focus on economic and financial outcomes (King, Dalton, Daily, and Colvin 2004), while the impact of mergers and acquisitions on employees have received less attention. This is somewhat not expected since an estimated one-third of employees will face a merger or acquisition at some point in their careers. (Hubbard, 1999). Mergers and acquisitions have been found to have negative effects on employees such as increased stress, anxiety, turnover, and layoffs (Amoit, Terry, Jimmieson, and Callan, 2006; Marmenout, 2010; Rafferty and Restubog, 2010). In previous research has generally shown that acquired company employees react unfavorably to MandAs, a result often cited to explain why many MandAs are not successful (e.g., Blake and Mouton 1985, Hambrick and Cannella 1993, Walter 1985).

Research from a psychological perspective identifies such problem as “we versus they” antagonism, condescending attitudes, distrust, tension and hostility (Astrachan 1990, Blake and Mouton 1985, Levinson 1970). Marks and Mirvis (1986, p. 41) describe the “merger syndrome”, whereby employees of the acquired firm “mourn a corporate death” and deal with worst-case rumors, various stress reactions, and constricted communication. MandAs can severely affect career plans of employees by forcing layoffs, relocation, and the loss of individual influence (Greenwood et al. 1994, Hirsch 1987, Walsh 1989). Cultural clashes are not uncommon during the integration process as two organizations, each with established routines, attempt to reach some type of accommodation (Chatterjee et al. 1992).

From a social exchange perspective (Sun, Aryee, and Law, 2007; Nishii, Lepak, and Schneider, 2008), when human resource practices are viewed as supportive, employee may have more favorable perceptions of the merger. Organization leadership and communication can also help mitigate the harmful effects of merger on employees (e.g., Amiot, 2006; Marmenout, 2010; Rafferty, et al., 2010; Weber and Tarba, 2010). When leadership provides information about the merger (Schweiger and DeNisis), is supportive and visible (Fugate, Kinick, and Scheck, 2002; Houghton, Anand, and Neck, 2003) and interacts with employees (Marks, 1997) during merger process, employee uncertainty, stress and anxiety are reduced. Reduced uncertainty may lead to more favorable perceptions of merger (Appelbaum, Gandell, Shapiro, Belisle, and Hoeven, 2000; Schweiger and DeNisis, 1991). Based on social exchange theory, organizational leadership and communication about the merger can be viewed as a form of interactional fairness by employees (Seo and Hill, 2005) and employees may perceive they are being treated fairly when leadership communicates the importance of merger, the need for its associated changes, and acknowledge the anxiety and uncertainty employees face after merger (e.g., Fried, Tiegs, Naughton, and Ashforth, 1996; Guknecht and Keys, 1993).

We find considerable support for the idea that employee resistance, defined as the individual and collective opposition of employees to the combination and subsequent integration of the joining firms, is associated negatively with MandA performance both active and passively (Larsson and Finkelstein, 1999).

Leadership and communication are important after a merger (e.g., Amiot, 2006; Marmenout, 2010; Rafferty et al., 2010; Weber and Tarba, 2010) because uncertainty rather than the change itself, causes employee stress (Weber and Tarba, 2010). Following a merger, especially a horizontal one, an organization should focus on its HR practices (e.g., Napier, 1989, Weber and Tarba, 2010; Wieckramasinghe, and Karunaratne, 2009). To understand the role of intellectual human capital in a firm’s ability to build new capabilities, researchers have highlighted the emergence of tacit knowledge resulting from the interaction of highly skilled human capital (Almeida et al. 2002, Kogut and Zander 1992). As an example, Henderson and Cockburn (1994) find that locally embedded knowledge and skills among intellectual human capital may be a unique source of innovative competence for the firm. A firm’s innovative performance is at least partially a function of the value of its human capital (Hitt et al. 2001). Thus, organizations are expected to invest more in acquiring, retaining, and training intellectual human capital as the value of their human resources increases (Gardner 2005).

### **Organizational Leadership and cultural dimensions in the organizations**

From the perspective of sociocultural integration which is a very vital element of synergy realization, it is very important what the employee’s attitude towards sharing identity and values in the integration process. People are somewhat leaned towards those whose attitudes and values are similar to their own (e.g., Byrne 1971, Darr and Kurtzberg 2000). On the other hand, trust becomes vulnerable and possibility of future conflict may

arise when the persons perceive they are not sharing the key values. Consequently, perceptual biases and basic cognitive processes like social categorization, negative characteristics and intentions are often attributed to members of the out-group (Kramer 1999). Further, this led to suspicion as they are from out-group and considered as “uniformly unethical or malevolent, in competent and ill-informed- and the in-group is viewed in the opposite terms.” (Sitkin and Stickel 1996, p.212). However, from the perspective of task integration, it is very difficult to perceive the apparent benefits of cultural differences between the firms in sharing resources and transferring the capacities. This is because the sociocultural and task integration processes combine in a complex way in terms of realization of synergies (Stahl and Voigt, 2008). The available evidence show that the sociocultural integration and the task integration basically reciprocal in nature and poor sociocultural integration leads to even poorer task integration and task integration cannot be driven faster than the success with the sociocultural integration (Birkinshaw, Bresman and Hakanson, 2000, Haspeslagh and Jemison, 1991).

One very powerful theory the Social Identity theory (Tajfel 1981, Turner 1982) suggests the organizational in- group members tend to show biasness towards their own group members and hold a negative view about the members of the out-group in order to enhance the relative standing of their own group. The “us-versus-them” attitude is at the highest when they sense the external threat such as takeover attempt and the out-group is taken as a very different from their in-group (Elsass and Veiga 1994, Hogg and Terry 2000). Surprisingly, in these scenarios, the bonding between in-group members tend to increase and the takeover attempt may be intensely resisted (Datta and Grant 1990, p. 32) which is termed as “conquering army syndrome”. In cross-border MandA, feelings of hostility, resentment, and distrust may be further pushed by cultural stereotypes and xenophobia (Krug and Nigh 2001, Olie 1990).

Degree of relatedness in the businesses can be a potential moderator in merger outcomes (Stahl and Voigt, 2008). Buono and Bowditch (1989), Datta (1991), Larsson and Finkelstein (1999) and Schweiger (2002) agreed upon that related MandAs need more and higher levels of operational integration and led to greater organizational changes and turnarounds and stir up greater conflicts.

## 2. Research Methodology

### Method

The qualitative case study method is an approach to research that expedites the holistic investigation of a phenomenon within its context using variety of data sources. For example, Baxter (2006) conducted a research study on decision making of nursing students and what are the factors influencing their decision making process. He used case study method to explore the decision making of the students of the school of nursing. But he cannot ignore the context which is the School of Nursing as the case cannot be considered without the context. Similarly, our leadership style and prior communication to employee resistance and organizational integration is the case but the case cannot be considered without the context which is merger and acquisitions. It would have been impossible to have a true picture of leadership response to employee resistance and integration without considering the context within which it occurred.

**Design and procedure:** The data used in the research are from the in depth interview from the employment of a large international telecom service firm. Almost twelve months after the firm had started merging with another company (horizontal merger). Intensive interviews of the managers from both the company A and B (pre-merger situation) and after merging (implementation stage) will be conducted. After that in the phase two, focus

group discussion will be taken to ensure the more in depth view and to ensure reliability in the triangulation process. The organization ensured that the participants who are being chosen represent the population diversity within the organization. To ensure anonymity, the interview will not ask for their gender, date of birth (age) or education level.

The phenomenological study approach will follow the in depth interview process having at least 5 manager of asst. manager in the functional level. The interview format will be semi structured. According to the 'rule of thumb' principle, each interview would take 20-40 minutes. In the phase two, the focus group discussion will be conducted which will have 5- 10 people in average considering the fact that the 'groupings' represents the research questions.

With a well-conceived interview protocol, a 10-20 hour database should provide enough data to support a solid qualitative dissertation.

With reference to job status, almost 95% of the employees work full-time. Each employee works in one of the four different business function segments, with the largest pool of participants from the Finance while the smallest pool will be from the HR Department.

Positively affected by MandA:

Finance Division:

- Increase in revenue
- Tax benefit
- Increased bargain power to lower cost
- Cost minimization through functional integration

Network Division:

- Strong net coverage
- Less tower
- Less network operation
- Easier maintenance network

Negatively affected by MandA:

HR Division:

- Employee cut and lay off
- Discriminatory employee mindset
- Unassigned manpower
- Employee dissatisfaction

Marketing Division:

- Brand segmentation
- Double advertisement
- Separate marketing strategy
- Higher marketing cost

Pre-merger, the two companies, A and B, were of almost equal size. (2<sup>nd</sup> and 4<sup>th</sup> players in the industry). The interviews and focus group discussion will be conducted from employees of both pre-merger firms but the distribution will not be equally 50- 50 distribution though. Due to some change in post-merger implementation employee retention and recruiting, the respondents from the interview and questionnaire will be uneven for the two merged companies.

## **Inclusion and Exclusion Criteria**

### **A. Inclusion Criteria**

1. Policy makers, manager and assistant manager level employees who are directly involved with the overall planning and implementing the strategies in the management body.

2. The management team members who are directly associated with the aftermath of the merger and acquisition.
  3. Those who are capable of providing informed consent.
  4. Permanent employees of the organization.
- B. Exclusion Criteria
1. Those employees who are working on part time basis with the company.
  2. The employees who are not associated with the merger and acquisition phases of the company.
  3. The employees who do not have idea of merger and acquisition.
  4. Lower level employees who will not have a direct effect of merger and acquisition on their career.

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