Emotional Balancing by Middle Managers: A Study of Post Merger Integration

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Abstract

Purpose – This paper explores how emotional capability of middle managers can be leveraged in balancing heightened emotions during radical change situations. The outcome of the paper, however, are propositions hypothesizing the relationship between the research constructs- emotional balancing and change outcomes.

Design/methodology/approach – An inductive analysis is done for validating the research variables on the basis of literature review, secondary data from various sources and a comparative analysis is done between companies of same industry.

Findings – The research variables identified is analyzed from the select cases which indicate the relevance of emotion management by middle managers in pharmaceutical industry during post merger integration.

Research limitations/implications – This paper is more of a theoretical conjecture derived from literature with a preliminary validation from select cases based on secondary sources. The propositions suggested should be subjected to empirical validation in future.

Practical implications – The paper findings may help middle managers in the corporate, in general, and pharmaceutical industries, in particular, to facilitate change projects by managing emotions at the micro level in order to achieve intended change outcomes.

Keywords: Emotional Balancing, Middle Managers, Post Merger Integration, Radical Change, Pharmaceutical Industry

1. Introduction

In the context of a radical change situation like mergers and acquisitions which is increasingly opted by today’s organizations, the role of middle managers in managing emotions is usually neglected. Recent studies in radical change intend reveal that middle managers can act as change agents and facilitate implementation more effectively. Middle managers continuously try to balance the employee’s emotions either negative or positive. They try to remove negative feelings and uncertainty by continuously involving them in the decision making, conducting meetings and open house sessions, thus helping the employees to realize their importance in the change project.

Post merger integration is a situation of high uncertainty which have a negative effect on employee’s emotions. An increased level of uncertainty, or rumors about restructuring and
job losses, perceived threats to social identity, or speculations about potential organizational change processes, may initiate these emotions. Middle level managers play an unavoidable role in balancing employee’s emotions and bringing out the desired change outcomes.

A lot of studies were done on M&A but very little work is done on emotional issues during post merger integration and possible roles of middle level managers in balancing those emotional issues to facilitate smoother integration. The present study assesses the role of emotional balancing in managing change, by leveraging the role of middle managers during post merger phase.

2. Literature Review

An extensive review of literature is taken across items like radical change, post merger integration, emotional balancing and middle manager’s role.

2.1 Radical Change

Organizational change can be defined as an alteration to organization’s structure, its processes and social system (Kiefer, 2005). Organization sometimes faces a radical change situation to urgently meet the demand for transformation (Huy, 2002). A radical or revolutionary transformation is viewed as “trigger events” (Kiefer, 2005) that challenges organization member’s self-identity and creates high uncertainty about their future roles and privileges, which elicits anxiety (Argyris, 1990). Organizational change involves different kinds of personal loss for people at all levels and change efforts leads to human resistance (Eriksson, 2004). These kinds of changes tend to experience disorganized dynamic situations, so it is vital that leaders across the organization take a disciplined approach to take individuals behavior from known to unknown situations (Isern and Pung, 2007).

2.2 Post Merger Integration

Mergers & Acquisitions are considered as vital for the rapid growth and development of business enterprises. The growing numbers of M&A’s stands in contrast with the ongoing evidence according to which most M&A do not reach the performance target. The reason for poor performance could be the human factor (Szabla, 2007); the cultural challenges involved and manager’s difficulty of adequately managing the post integration phase (Teerikangas, 2010). While going for a mergers decision top managers fail to realize that people can make or break the alliance. One of the important factor is employee resistance (Kiefer, 2005), which can disable the realization of synergies potential available after acquisition (Teerinkangas, 2010).

During M&A’s, it is not the asset, technology or infrastructure that is difficult to integrate but it is more the people. People issues were considered as “Soft” issues but when it is ignored the organization faces hard consequences (Robert and Appelbaum, 2009; Teerikangas, 2010; Mittal and Jain, 2012). Negative impact of M&A on employees in the acquired firm is termed as “Merger Syndrome” (Teerinkangas, 2010). Emotions triggered by change are mostly negative. Negative emotions are an indicator of an employee’s unwillingness to support change (Kiefer, 2005). People who are experiencing negative emotions may have a heightened awareness of their predicament and engage in less deliberation when reacting to change (Moosholder et al, 2000). The broad causes identified
for arousal of negative emotions relates to working conditions, issues related to job and organizational treatment (Kiefer, 2005; Sinkovics et al, 2011). The negative emotions recognized related to the causes include anger, resentment, disappointment, anxiety, turnover intention, decreased trust and commitment (Kiefer, 2005; Moosholder et al, 2000).

2.4 Middle Managers Effort during Post Merger Phase

Organizations seeks greater flexibility during radical change which is the responsibility or the task that generally falls to middle managers as they are the linking pins between strategy and operations (Mcgurk.P, 2011; Huy, 2001). Middle management refers to “mediocrity” which is categorized two levels below CEO and one level above line workers (Huy, 2001). They take action that had an influence on both upward and downward in strategy formation (Barton and Ambrosini, 2013).

Floyd and Wooldridge (1992) gave a typology of middle management involvement in strategy. According to him strategy is a change process and requires divergent roles of middle managers for successful strategy implementation. He discussed about four roles played by middle managers i.e. Championing alternatives and synthesizing information represent upward forms of involvement, while facilitating adaptability and implementing deliberate strategy are downward forms. Huy (2002), discussed two important roles of middle level managers i.e. emotionally committing to personally championed change projects and role of attending to recipient’s emotions. According to the first role the degree of commitment by middle level managers is directly proportional to the desired change outcomes (Teerinkangas, 2010). Middle managers role of attending to recipient's emotions (Huy, 2002), is directly linked to their commitment to change projects. A manager who is high on commitment tries to be high on attending to his subordinates emotions too, resulting in desired group behavior i.e. group adaptation and low commitment among middle managers with low attending to recipients emotions can lead to a situation of group chaos.

When change goes well it is because leaders and managers were insightful, charismatic, inspiring and following transcendental goals (Teerinkangas, 2010). Middle managers cannot ignore their subordinates emotional well being because if they do so, most useful work will come to an end as people either leave the company or become afraid to act (Huy, 2001). Managers who avoid people tend to be ineffective, and destructive or toxic at worst leads to arousal of negative emotions and group chaos in the organization (Huy, 2002; Brotheridge and Lee, 2008 Positive emotions broaden people’s mindsets to encourage them to accept challenges so that they can contribute willingly to the success of integration of merging firms (Kusstatscher, 2006)

2.5 Emotional Balancing by Middle Managers

Emotional balancing facilitates or brings the desired outcome which leads to organizational adaption by employees (Huy, 2002; Nasim and Sushil, 2011). Emotions can be defined as coordinated responses to changes in the environment that involve invoking specific experiences, activating relevant cognitions, appraising the ongoing situation for change and coordinating bodily states (Gadot and Meisler, 2010; Sinkovics et al, 2011). The emotions that employees express reveals how they feel about ongoing change events or how they may react to these events (Moosholder et al, 2000) and their importance in success or failure of change events (Kiefer, 2005). The organization transformation can provoke uncountable
positive and negative responses (emotional turmoil) from change recipients (Moosholder et al, 2000; Huy, 2002).

Middle managers act as emotion managers to identify the responses for change and understand the importance of cultivating positive emotions during M&A (Kusstatscher, 2006). Riggio (2007) identified that managers who are emotionally linked are more likely to generate a positive environment at workplace. Involvement of managers in the acquisition process in a positive way gave a signal to the employees about the opportunity, in the contrary lack of involvement will create less interest or negative effect on the employees (Teerikangas, 2010; Vijayalakshmi and Bhattacharyya, 2011; Kiefer, 2005).

Organizational dependency on innovations by middle level managers for the survival of the entity during change and steering the strategy implementation process is an unavoidable task (Marginson, 2002) which shows that they had diverse insights (Huy, 2001). An extensive review of the literature indicates that middle level managers can play a critical role in balancing heightened emotions during radical change situations.

3. Research Methodology

An extensive analysis of the literature is done to identify the importance of emotion management and the role of middle level managers in the radical change context. For validating the research variables an inductive analysis is done on the basis of secondary data and analysis of case studies by SAPLAP framework. The concept of emotional balancing by middle level managers during radical change is identified and analyzed in the case studies of Ranbaxy – Daiichi and Abbott – Piramal merger.

SAPLAP is a framework which is used to generate a model of enquiry for organizational change which can be used for managerial implications (Sushil, 2001). In SAP framework situation represents the issues to deal with, actors are the major players involved who have the freedom of choice and process includes approach to deal with the issues where inputs are converted into outputs. The interplay of SAP leads to LAP framework in which Learning includes key learning phase of SAP, action includes the measures to be taken to solve the issues and performance can be the actual outcome expected after action is taken (Sushil, 2000).

3.1 Case Study 1: Daiichi- Ranbaxy Merger

3.1.1 Background of the Merger

Japan’s Daiichi Sankyo acquired 63.9% stake of India’s Ranbaxy Laboratories Ltd. in June 2008 for $4.6 billion (Hindustan Times, June 2013). Daiichi had a global presence and strengths in innovative products, but was running out of new products and growth. Ranbaxy was an emerging multinational with established strengths in developing and selling generics, a segment that was growing rapidly in the developed world (LiveMint, June 2013). The combined entity now ranks among the top 20 pharmaceutical companies, globally (www.ranbaxy.com).

Daiichi initiated steps to put in place an altogether different organizational culture for significant and sustainable changes in quality practices (LiveMint, June 2013). Both the entities tried to formulate HR friendly policies for smoother integration. Ranbaxy offered
retention benefits to key executives by paying loyalty bonus globally to prevent exits (Economic Times, July 2008).

The situation got worse by Ranbaxy when it was pleaded guilty to US charges of selling adulterated antibiotic, acne, epilepsy and other drugs and was charged a fine of $500-million (Hindustan Times, June 2013). Daiichi alleged Ranbaxy for hiding and misrepresenting critical information (India Today, June 2013). It was disappointed by Ranbaxy’s management, culture, operations and compliance. On the other hand Ranbaxy’s owners told that Daiichi was informed of investigations into manufacturing problems by the FDA and the US Department of Justice “at every step of the way” and full access to all documents was provided (Pharmalot, May 2013).

Daiichi decided to eliminate members of the management team that have been responsible for the company’s ongoing manufacturing problems and plans to induct more Japanese executives into Ranbaxy’s senior management and executive team in India (Business Standard, May 2013). About 400 employees including senior and middle level executives were given pink slip. Daiichi now agreed to support Ranbaxy in its efforts to address and correct the conduct of the past which led to the investigations by the U.S. Department of Justice (“DOJ”) and the U.S. Food and Drug Administration (“USFDA”) (Economic Times, July 2013).

3.1.2 SAPLAP Analysis

<table>
<thead>
<tr>
<th>S.No</th>
<th>Situation</th>
<th>Actors</th>
<th>Process</th>
<th>Learning</th>
<th>Action</th>
<th>Performance</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Daiichi acquired 63.9% stake in Ranbaxy (Reuters, May 2013)</td>
<td>Ranbaxy and Daiichi Chief Executive and Daiichi</td>
<td>To form an innovative Hybrid Business Model</td>
<td>Achieving cultural integration and profitability</td>
<td>Acquisition of 63.9% shares in Ranbaxy</td>
<td>Improvement in profitability and increase market share prices</td>
<td>2008</td>
</tr>
<tr>
<td>2</td>
<td>Ranbaxy was charged with gross violations of cGMP (Economic Times, August 2013).</td>
<td>Ranbaxy Chief Executive, USFDA, whistleblower &amp; DOJ and employees.</td>
<td>USFDA issued 67 warning letters for manufacturing and product quality and banned Ranbaxy exports.</td>
<td>Employees at the plants in Dewas, affected by the FDA probe were not asked to leave (Business Today, July 2010).</td>
<td>Export banned from the plant at Dewas and Poanta Sahib to US.</td>
<td>Damage to Ranbaxy’s image</td>
<td>2008</td>
</tr>
<tr>
<td>3</td>
<td>Ranbaxy shifted its India headquarters to Mumbai from Gurgaon, hired 1,500 Ceo and MD, middle level managers and employees.</td>
<td>Ceo and MD, middle level managers and employees.</td>
<td>To train employees to match higher standards and enhance quality of manufacturing.</td>
<td>To follow a copy book strategy (Business Today, July 2010)</td>
<td>Orientation and training to employees by middle level managers</td>
<td>Trying to follow a different organizational culture</td>
<td>2010</td>
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</table>
people, and created 10 business units (Business Today, July 2010).

4. Ranbaxy settled the $500 million penalty with DOJ. Daiichi has alleged Ranbaxy for hiding information (LiveMint, June 2013).

**Ranbaxy Chief Executive, USF DA & DOJ and Senior Executive Officer at Daiichi Sankyo**

To address and correct the conduct of the past which led to the investigations (Business Today, May 2013)

Enhancing its compliance procedures and policies

Preserving market s and proactively averting any adverse reaction from its existing customers to recent events

Commitment to the highest standards of quality in its operations and compliance 2011

5. Daiichi continued to support Ranbaxy and eliminated members of the management team (Business Standard, May 2013).

**Daiichi Chief Executive and middle level managers**

To strengthen the procedures to comply with Current Good Manufacturing Practice ("cGMP").

Complete reconstitutio n of the board of directors and Japanese executives were included in the management team (Business Standard, May 2013).

Building a culture of accountabil ity and excellence across all levels of the organizatio n

Focus on efficiency improvement by benchmarking (www.daiichisankyo.com) 2013

6. Ranbaxy reduced its workforce globally including senior and middle level managers

**Ceo and MD, middle level managers and employees.**

To conduct meeting and open house sessions to reduce employees uncertainty

Improve overall productivity

Widesprea d retrenchme nt of employees

Achieving optimal workforce through downsizing 2013

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**Table 1: SAPLAP framework**

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<th>3.1.3 Discussion</th>
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**Table 1: SAPLAP framework**

3.1.3 Discussion
Facts about Daiichi- Ranbaxy merger revealed that the post merger integration was difficult despite doing a proper due diligence and different HR friendly policies. Key learning about the merger discovered that the middle level managers who were involved in unethical practices displayed low commitment to change which led to a situation of uncertainty and chaos. Daiichi took action to eliminate senior and middle managers responsible for the fraud and introduce Japanese executives in Ranbaxy (www.daiichisankyo.com). The combined effort of both the entities to correct past mistakes will improve overall performance by focusing on improvement by benchmarking (www.ranbaxy.com).

3.2 Case study 2: Abbott Piramal merger

3.2.1 Background

Abbott, a US subsidiary acquired India’s Piramal healthcare in 2010, for an up-front payment of $2.12 billion, plus $400 million annually for the next four years (Economic Times, May 2010). Abbott considered three factors before acquiring Piramal, which included cultural fit, a portfolio of established brands and the management skill. Piramal was a proven business model in India and experienced local leadership team, combined with the global resources of Abbott, will allow it to scale up the business in this emerging market (Abbott press Release, August 2010). Piramal will operate as standalone business reporting to Abbott’s established products division (Bloomberg, May 2010).

The assets to be transferred included the company's manufacturing facilities at Baddi, Himachal Pradesh and rights to around 350 brands and trademarks (India Knowledge@Wharton, June 2010). The sale will also involve the transfer of employees of the domestic formulations business, which could lead to considerable resistance to change (www.indianexpress.com). Abbott will retain the talents and the products of this new Indian asset to grow the business. (India Knowledge@Wharton, June 2010).

3.2.2 SAPLAP Analysis

<table>
<thead>
<tr>
<th>S.no</th>
<th>Situation</th>
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<th>Learning</th>
<th>Action</th>
<th>Performance</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Abbott acquired Piramal business</td>
<td>Chairman of Piramal Healthcare and chairman and chief executive officer of Abbott</td>
<td>To focuses on branded generics and look for opportunities in emerging markets.</td>
<td>The largest acquisition in the Indian drug industry in terms of size and premium</td>
<td>Payment of $2.12 billion, plus $400 million annually for the next four years.</td>
<td>Abbott business will become the clear market leader in India</td>
<td>2010</td>
</tr>
<tr>
<td>2)</td>
<td>Transfer of 8000 Piramal employees and manufacturing facilities to Abbott</td>
<td>Senior vice-president of Abbott, middle level managers And</td>
<td>To leverage the role of middle managers to reduce uncertainty among employees</td>
<td>Aim to retain the talents and products of domestic business.</td>
<td>Training and orientation programs for employees moving to Abbott.</td>
<td>Abbott India has become the largest employer in the Indian drug industry with a combined</td>
<td>2010</td>
</tr>
</tbody>
</table>
employees moving to Abbott.

| 3) | Piramal continues to operate as a standalone business | Chairman of Piramal Healthcare | To maintain the manufacturing standards and develop the capability to meet global regulatory standards | Doesn’t anticipate a sudden integration of operations | Led by its current local management team | Expands the scope for drug research | 2010 |
| 4) | Piramal announced bonus payment of up to six month salary to its employees (Business Standard, June 2010) | Chairman of Piramal Healthcare, middle level managers and employees | To reward the employees who contributed to the growth of business | Token of appreciation to employees (Economic Times, June 2010) | Bonus payment of up to six months' salary | Deal with employees resistance to change | 2011 |

Table 2: SAPLAP Framework

3.2.3 Discussion

Abbott realized synergies by Piramal proven business model and local leadership team (Economic Times, June 2010). Key learning revealed a significant role played by middle managers by conducting training programs to reduce resistance to change by employees moving to Abbott (www.dnaindia.com). Employees were paid bonus to retain their trust in management. The post merger integration was smoother because of the involvement of middle managers and high level of commitment showed by them. Abbott also tried to keep Piramal as a separate business which was led by its local team, increases the trust in management and change programs by the employees (Economic Times, May 2010).

3.3 Comparative analysis of the cases

A comparative analysis of both the cases is done to validate the impact of human integration on merger and the role of middle managers in bringing out the desired outcomes. Both the cases are analyzed from different parameters. Abbott- Piramal followed employee’s friendly policies and included middle managers support, leading to smoother integration whereas Daiichi- Ranbaxy faced a difficult integration because of low commitment by middle managers who were involved in unethical practices.
Table 3: Case study facts from acquirer perspectives

<table>
<thead>
<tr>
<th>Case context</th>
<th><strong>Daiichi- Ranbaxy</strong></th>
<th><strong>Abbott – Piramal</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Case facts</td>
<td>Merger in pharmaceutical industry. Daiichi acquired 63.9% stake of Ranbaxy for a payment of $4.6 billion.</td>
<td>Merger in pharmaceutical industry. Abbott acquired Piramal for an upfront payment of $2.12 billion plus $400 million annually for next four years.</td>
</tr>
<tr>
<td>Process integration</td>
<td>Aim to form a hybrid business model and followed a copy book strategy by balancing risks and opportunities in two different parts.</td>
<td>Piramal will operate as a standalone entity led by its current local management teams</td>
</tr>
<tr>
<td>Technical integration</td>
<td>Ranbaxy integrated with Daiichi R&amp;D and value chain to gain synergies for low cost manufacturing abilities.</td>
<td>Increased investment in R&amp;D to assist in cost effective drug development process.</td>
</tr>
<tr>
<td>Human integration</td>
<td>Daiichi initiated steps to build a different organizational culture. Ranbaxy offered retention benefits to key executives to prevent exits for smoother integration</td>
<td>Abbott aimed to retain the domestic talents and become the largest employer in the Indian drug industry. Piramal announced bonus payments to employees as a token of appreciation.</td>
</tr>
<tr>
<td>Middle level managers</td>
<td>Retrenchment of middle managers who were responsible for the fraud at Dewas and Poanta Sahib plants.</td>
<td>Middle managers were given significant role to balance the employee’s emotions, who were moving to Abbott.</td>
</tr>
<tr>
<td>Employees</td>
<td>Meetings and open house sessions were conducted to reduce uncertainty.</td>
<td>About 8000 employees moved to abbot, training programs were conducted to reduce resistance to change.</td>
</tr>
</tbody>
</table>

3.4 Reflection

One of the ways to manage human integration is leveraging the role of middle managers. A greater involvement of the middle level management in communicating the change programs and by greater empathy shown by them, acceptance to change becomes easier and the task of human integration becomes smoother. In case of both the mergers the acquiring firm tried to retain the talents of the acquired firms by offering bonus and retention benefits. It was identified from the secondary sources that there was open house sessions and meetings conducted to reduce uncertainty among employees at Ranbaxy, whereas Piramal conducted training programs to reduce resistance to change by the employees moving to Abbott.

Middle managers are responsible for driving integration. Middle managers at Abbott displayed positive commitment to change project and were high on attending to recipients emotions, which resulted in smoother integration. On the other hand, middle managers at Ranbaxy were involved in unethical practices and displayed negative commitment to change.
project as a result they were low in attending to recipients emotions, leading to difficult integration.

4. Propositions for future research

Proposition 1: Emotional Balancing outcomes is influenced by both emotional commitment to change projects and attending to recipient’s emotions.

Middle level managers demonstrated two kind of behavior while balancing the emotions of their employees: emotionally committing to personally championed change projects and attending to recipient’s emotions (Huy, 2002). People will differ in their reaction to change or perceiving change i.e. either resisting or admiring (Eriksson, 2004). Both factors equally contribute to the manager’s role in proper balancing of employee’s emotions and achieving the desired outcomes of radical change.

Proposition 2: Degree of emotional commitment to change project positively relate to the role of attending to recipient’s emotions, enhances the desired change outcome.
Middle managers who are highly committed to change projects are also effective in attending to their recipient’s emotions (Huy, 2002, Floyd & Wooldridge, 1992, Barton & Ambrosini, 2013 and Neubert & Cady, 2001). Employee’s emotion affects group behavior which can facilitate or hinder proposed change. When both the roles of middle managers are balanced it results in group adaptation which brings desired change outcomes (Huy, 2002).

**Proposition 3**: Middle managers negative or low commitment to change project, leading to unethical behavior had an adverse impact on intended change outcomes.

![Figure 3: Impact of Middle Managers Negative Commitment](image)

Commitment relates to how consistent managers behave to take strategic decision, readiness or intention to perform the given task and the extent to which he comprehends and support the goal and objectives of a strategy (Barton and Ambrosini, 2013). Managers who are personally committed to change projects demonstrate enthusiasm, get involved and take personal responsibility for a successful implementation whereas low commitment by managers create significant obstacles to effective strategy implementation (Neubert and Cady, 2001). Negative commitment with low attending to recipient’s emotions will lead to a situation of chaos and difficulty in achieving the desired human integration (Huy, 2002).

5. Conclusion

Research evidence from the literature, analysis of case studies and propositions developed verify that middle managers play a seemingly important role in managing employee’s emotions during radical change. The challenge is more complex during mergers and acquisitions to retain the core values and capabilities while simultaneously changing how work gets done and shifting the organization in new strategic directions. This simply won’t happen unless people throughout the organization help make it happen. Middle managers are the ones who can translate, synthesize and can implement strategy because they know how to get things done. Human integration, often considered as an obstacle for implementing change, is a task that falls to middle managers. Emotional balancing by middle managers can prove to be a solution for smoother post merger integration.

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