A Model of Responsible M&As

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Presented at the CRR Conference, Dublin, 4–5 September 2006

ABSTRACT

Companies conduct mergers and acquisitions (M&As) to secure profits, continuous growth and added share value by gaining new resources, know-how, synergies, new markets and competitive advantage. They also try to increase the efficiency of operations during the merger or acquisition (M/A) process.

M&As seldom reach the set goals. Companies concentrating on strategic and financial issues forget the multi-faceted character of M&As. The integration process of companies has a major impact on their staff, external stakeholders and the environment. If a company takes a holistic responsibility of its actions during the M/A process, it will have better chances to achieve its goals.

The purpose of this research is to show how companies can conduct their M&As responsibly by integrating their economic, social and environmental responsibilities into the M/A process. Forced change brings fast-profits, which soon turn into losses as conflicts, exhaustion and unethical or unjust experiences consume the mental resources of the company. The management, staff, partners, customers, investors and other stakeholders would like to be proud of the company. Their participation in the planning and execution of a M/A brings sustainable results. By utilizing the model of responsible M&As built in this paper, companies can succeed in reaching their M&A goals.

Key words: mergers and acquisitions, economic, social, environmental, responsibility

INTRODUCTION

The idea for this paper came from Lotta Häkkinen’s (2005) Ph.D. thesis on corporate acquisitions. It made me think that mergers and acquisitions would benefit from the ideas of corporate responsibility.
Economic vs. human side of M&As


A merger or acquisition (M/A) causes a great deal of emotional turmoil and stress among the managers, staff and different external stakeholders. During the M/A process companies also attempt to increase the efficiency of operations, which leads to further conflicts.


Researchers have given the top dogs some managerial tools to deal with the human, organizational and cultural sides of M&As (e.g. Buono and Bowditch 1989, Buono et al 1985, Cartwright and Cooper 1992, Larsson and Finkenstein 1999, Schweiger and DeNisi 1991, Shrivastava 1986, Weber et al 1996, Weston et al 1990, Zaheer et al 2003). Although the importance of managing the staff as well as the finances during a M/A is recognized, the human side of M/A seems to remain the main reason why M&As fail.

The role of human stakeholders in M&As

It is perhaps the way in which humans are treated during the M/A process that is the crucial stumbling block. Staff is managed, i.e., treated as a passive object of a M/A – not as active subjects in a M/A.

The top dogs look after their own interests during a M/A as best they can. Some succeed, others fail – and nearly always some top directors have to go (e.g. Walsh 1988, Walsh and Ellwood 1991). The top management does not give other staff similar chances to influence their destiny. Participation in the planning and execution process
of the M/A from the employee’s occupational and personal point of view would make each employee committed to the change.

In addition to all staff, all external stakeholders of a company are greatly affected by a M/A. Fundamentally, companies are made up of their stakeholders: staff, customers, shareholders, financers, insurers, suppliers, contractors, partners, distributors, business associations, trade unions, political decision-makers, authorities, legislators, non-governmental organizations, researchers, the media, the public, etc. Without its stakeholders’ consent, a company does not have a licence to do business. At the time of merger or acquisition the previous licence expires and a new licence needs to be earned. Most failed mergers have not succeeded in earning the new licence to operate from their stakeholders. The way to get this licence is to allow the stakeholders to participate in the M/A planning and execution process from their own occupational and personal points of view.

A merger or acquisition is both a threat and an opportunity to all those involved. When a M/A is announced out of the blue, the first reaction of both the internal stakeholders (staff) and the external stakeholders is the feeling of insecurity: What happens to me? Is my position secure? If they start believing that they will be all right, they immediately begin to look for ways to benefit from the M/A: How can I improve my position? How can I get more rewards out of this situation?

If the top dogs of M&A companies realised that the only way to succeed in achieving the M/A goals is to treat all internal and external stakeholders the same way as they want themselves to be treated, they might stop forcing M/A change down the stakeholders’ throats. Empathy goes a long way.

Forced change brings fast-profits, which soon turn into losses as conflicts, exhaustion and unethical/unjust experiences consume the mental resources of the company. The management, staff, partners, customers, investors and other stakeholders would like to be proud of the company. Their participation in the planning and execution of a M/A brings sustainable results.

The reason for top management often neither feeling empathy towards internal and external stakeholders, nor allowing them to participate in the planning and execution of M&As, lies in the personal traits characteristic of top managers. Top dogs are pronouncedly power-seeking personalities. They have reached top positions because of their unrelenting aspirations to power. It is extremely hard for them to give any of their power to others. If they are forced to allow stakeholders participate in M/A decision-making, they feel castrated and insecure. Nevertheless, ordinarily narcissistic managers can learn to delegate some power to stakeholders once they realize that this is the only
path to the economic goals of the M/A for which they will be rewarded. They just need to be convinced of the security of their own position and of the rewards waiting for them – exactly the same issues as the stakeholders wish to become convinced of during the M/A. Severely narcissistic top dogs, i.e., psychopaths, refuse to give up even a tiny bit of the power they have scraped up during their careers (Ketola 2006).

The role of non-human stakeholders in M&As

Apart from human stakeholders, whether internal or external, there are a number of non-human stakeholders that need special attention in a M/A process. However, environmental issues are seldom considered during the planning and execution of M&As. The non-humans cannot speak for themselves with words – they speak through their (re)actions. Nature is a powerful stakeholder. It demonstrates its views through atmospheric and ecosystem changes. Global warming, acid rain and other climatic phenomena are mostly results of human production and consumption patterns. The behaviour of one species, humans, influences the living conditions of other animal species and plants, often leading to ecosystem imbalances.

Whatever decisions companies make in relation to the use of natural resources and energy, production processes, storing, transportation and waste management, impacts directly the wellbeing of the environment – and us, humans, who are a part of the ecosystem. A merger or acquisition may change the ecological footprint of the companies in question. It will most likely change the environmental policies and practices of one of the companies as the harmonization process progresses.

If one of the M/A companies bases its business on eco-friendliness, but the other does not, major problems will arise. If both companies aim at being environmentally caring, harmonization should be quite easy. The same applies if neither company is interested in ecological sustainability – then the ecological footprint of the M/A may increase manifold, if the unsustainable operations of the companies start feeding each other.

With the exception of the first case (a company with an eco-friendly mission), the top management does not usually have very strong opinions about environmental management, which gives the environmental specialists of each company quite a lot of freedom to find the harmonizing solutions. Depending on the personalities of the specialists in respective companies and the general atmosphere concerning the M/A, the environmental harmonization may become either a cooperative project or a power struggle. Both options may lead to environmentally benign or malignant results. Environmentally benign results contribute to the economical goals of M/A at least in the
long run, if not immediately. In the malignant results’ case, the new company may save money in the short term but lose much more money in the long term when the “externalities” fall due for payment.

**The purpose of this paper**

Concluding the discussion above, the integration process of M/A companies has a major impact on their staff, external stakeholders and the environment. If a company takes a holistic responsibility of its actions during the M/A process, it will have better chances to achieve its goals. The purpose of this research is to show how companies can conduct their M&As responsibly by integrating their economic, social and environmental responsibilities into the M/A process. By utilizing the model of responsible M&As built in this paper, companies can succeed in reaching their M&A goals. First the model is built. Then a case study of an irresponsible merger is briefly studied and its shortcomings are analysed. Finally, the underlying decisive factor determining the true success or failure of M&As, the relationship between power and responsibility, is discussed.

**THE MODEL OF RESPONSIBLE M&As**

The model of responsible M&As presented in this section integrates stakeholder theory and systems approach. Figure 1 illustrates the spatial system levels from a company’s point of view. A company in a M/A influences downwards its own groups of staff and individual staff and upwards its business environment, society at large, human system, ecosystem and the Earth – but not our solar system or the universe. A company in a M/A is responsible for the wellbeing of these seven human or non-human stakeholder groups. The other human stakeholders are responsible for their own actions during the M/A. Thus, from the systems approach standpoint, responsibility in M&As belongs to individuals, groups, companies, business environments, society and human system alike. It is a question of joint responsibility.

For a company to conduct its M/A in a responsible manner, it should meet the survival and security needs of its human stakeholders and mediate between their appreciation and financial gain needs so that all stakeholders feel they have benefited from the M/A but none of them feels that another stakeholder has benefited unjustly more than themselves. While the survival security needs can, in principle, be fully satisfied, the appreciation and financial gain needs must be only partially met in order
that justness, moderation and equality between the stakeholders are maintained. A company must not satisfy the greed of any stakeholder. It is also crucial to set limits to greed when a company’s economic responsibilities are integrated into its social and environmental responsibilities.

![Diagram of spatial system levels from a company’s point of view (Ketola 2005: 23).](image)

The needs of non-human stakeholders – the ecosystem and the Earth – in a corporate M/A are basic survival needs. It would be an added bonus, if a company could in its M/A satisfy the security needs of nature by guaranteeing a sustainable future for the environment. Individual companies seldom can do that. It calls for at least a business environment level commitment, and usually requires society level action. This would mean that people appreciated the environment. Nature does not ask for any appreciation or financial gains from humans, but with appreciation and financial investments in the environment humans can secure the survival and wellbeing of the whole Earth, including their own.

Table 1 lists some of the economic, social and environmental responsibilities companies have for their stakeholders. They represent some of the expectations stakeholders have of the companies, whether or not the companies can deliver them.

There are many ways of classifying the non-human and human stakeholders of a company. In table 1, non-human stakeholders are divided by two criteria: material and life form. Three different material elements – air, land and water – and two life forms – animal (fauna) and plant (flora) – are distinguished. In addition, the table tries to list as
Table 1. The economic, social and environmental responsibilities of M/A companies for their human and non-human stakeholders.

<table>
<thead>
<tr>
<th>Human stakeholders:</th>
<th>Economic M&amp;A responsibilities:</th>
<th>Social M&amp;A responsibilities:</th>
<th>Environmental M&amp;A responsibilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorities</td>
<td>compliance with economic regulations, information, cooperation</td>
<td>compliance with social regulations, information, cooperation</td>
<td>compliance with environmental regulations, information, cooperation</td>
</tr>
<tr>
<td>Business associations</td>
<td>compliance with business associations’ economic principles, information, cooperation</td>
<td>compliance with business associations’ social principles, information, cooperation</td>
<td>compliance with business associations’ environmental principles, information, cooperation</td>
</tr>
<tr>
<td>Competitors</td>
<td>M/A ideas, economic implications of possible M/A, information, cooperation</td>
<td>social implications of possible M/A, information, cooperation</td>
<td>environmental implications of possible M/A, information, cooperation</td>
</tr>
<tr>
<td>Contractors</td>
<td>economic opportunities (and no threats) of M/A, information, cooperation</td>
<td>social consequences of M/A in safety &amp; training, information, cooperation</td>
<td>environmental requirement changes of M/A, information, cooperation</td>
</tr>
<tr>
<td>Customers</td>
<td>affordable, high quality products and services, comparable information, services linked or available</td>
<td>safe products and services, information about their contents, advice on their use</td>
<td>high environmental quality products and services, information about their environmental impacts, recycling and disposal, cradle-to-grave responsibility</td>
</tr>
<tr>
<td>Distributors</td>
<td>marketable products and services, economic opportunities (and no threats) of M/A, information, cooperation</td>
<td>safe products and services to sell, advice on their qualities, social consequences of M/A in safety and training, information, cooperation</td>
<td>non-polluting, recyclable products and services to sell, advice on their environmental qualities, green transport, environmental requirement changes of M/A, information, cooperation</td>
</tr>
<tr>
<td>Employees</td>
<td>job security, improved position, incentives and rewards, information, cooperation</td>
<td>safe and healthy working conditions, training, meaningful work, job satisfaction, information, cooperation</td>
<td>high environmental quality production methods, practices and products &amp; services to produce, information, cooperation</td>
</tr>
<tr>
<td>Environmental groups</td>
<td>responsible corporate economic investments, information, cooperation, donations for environmental purposes</td>
<td>corporate social investments (also in third world subsidiaries), information, cooperation, donations for social purposes</td>
<td>responsible corporate environmental investments (also in third world subsidiaries), environmental actions and results, information, cooperation</td>
</tr>
<tr>
<td>Financers and Financial analysts</td>
<td>compliance with financial standards and codes, information, cooperation, no economic shocks or stresses home or abroad that lead to instability, better financial results through economic improvements, synergies and innovations</td>
<td>compliance with social standards, no social shocks or stresses home or abroad that lead to instability, social accounting, information, better financial results through social improvements synergies and innovations</td>
<td>compliance with env. standards, no env. shocks or stresses home or abroad that lead to instability, env. accounting, information, better financial results though env. improvements, synergies and innovations</td>
</tr>
</tbody>
</table>
Table 1 continues

<table>
<thead>
<tr>
<th>Human stakeholders:</th>
<th>Economic M&amp;A responsibilities:</th>
<th>Social M&amp;A responsibilities:</th>
<th>Environmental M&amp;A responsibilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governments</td>
<td>compliance with economic laws and customs, economic benefits for the country, information, cooperation, no economic shocks or stresses that tarnish the country’s image</td>
<td>compliance with social laws and customs, social benefits for the country, information, cooperation, no social shocks or stresses that tarnish the country’s image</td>
<td>compliance with environmental laws and customs, env. benefits for the country, information, cooperation, no env. shocks or stresses that tarnish the country and its image</td>
</tr>
<tr>
<td>Insurers</td>
<td>information, cooperation, no economic shocks that lead to compensations</td>
<td>information, cooperation, no social shocks that lead to compensations</td>
<td>information, cooperation, no environmental shocks that lead to compensations</td>
</tr>
<tr>
<td>Legislators</td>
<td>information, cooperation in developing more stringent economic legislation</td>
<td>information, cooperation in developing more stringent social legislation</td>
<td>information, cooperation in developing more stringent environmental legislation</td>
</tr>
<tr>
<td>Local people</td>
<td>information, cooperation, work and business opportunities, no economic threats, shocks or stresses, economic support to local communities</td>
<td>information, cooperation, social opportunities, no social threats, shocks or stresses, social support to local communities</td>
<td>information, cooperation, environmental opportunities, no environmental threats, shocks or stresses, environmental support to local communities</td>
</tr>
<tr>
<td>Managers</td>
<td>job security, improved position, incentives and rewards, information, cooperation</td>
<td>safe and healthy working conditions, managerial training, meaningful work, job satisfaction, information, cooperation</td>
<td>green products &amp; services, operations and corporate image to promote, information, cooperation</td>
</tr>
<tr>
<td>Media</td>
<td>transparent economic information, cooperation, material for dramatic economic news</td>
<td>transparent social information, cooperation, material for dramatic social news</td>
<td>transparent environmental information, cooperation, material for dramatic environmental news</td>
</tr>
<tr>
<td>Non-governmental organizations (NGOs)</td>
<td>responsible corporate economic investments, information, cooperation, investments in NGOs</td>
<td>responsible corporate social investments (also in third world subsidiaries), information, cooperation, donations for social purposes</td>
<td>responsible corporate env. investments (also in third world subsidiaries), information, cooperation, donations for environmental purposes</td>
</tr>
<tr>
<td>Owners of family businesses</td>
<td>higher turnover, profits, return on investment and dividends through economic improvements, synergies and innovations, holistic economic information and cooperation, initiator in the delegation of power, ultimate economic responsibility</td>
<td>better circumstances and competitive advantage through social improvements, synergies and innovations, holistic social information and cooperation, initiator in delegation of power, ultimate social responsibility</td>
<td>better circumstances and competitive advantage through environmental improvements, synergies and innovations, holistic environmental information and cooperation, initiator in delegation of power, ultimate environmental responsibility</td>
</tr>
<tr>
<td>Partners</td>
<td>economic opportunities, competitive advantage, higher turnover and more profits through partnership with the new M/A company; information, close cooperation</td>
<td>social consequences of M/A in the requirements for safety &amp; training, economic opportunities from social improvements, information, cooperation</td>
<td>environmental requirement changes of M/A, economic opportunities from environmental improvements, information, cooperation</td>
</tr>
</tbody>
</table>
Table 1 continues

<table>
<thead>
<tr>
<th>Human stakeholders:</th>
<th>Economic M&amp;A responsibilities:</th>
<th>Social M&amp;A responsibilities:</th>
<th>Environmental M&amp;A responsibilities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politicians</td>
<td>information, cooperation, development of politicians’ economic interest areas for their benefit</td>
<td>information, cooperation, development of politicians’ social interest areas for their benefit</td>
<td>information, cooperation, development of politicians’ env. interest areas for their benefit</td>
</tr>
<tr>
<td>Public</td>
<td>information, cooperation, work and business opportunities, no economic threats, shocks or stresses, economic support to society</td>
<td>information, cooperation, social opportunities, no social threats, shocks or stresses, social support to society</td>
<td>information, cooperation, environmental opportunities, no environmental threats, shocks or stresses, environmental support to society</td>
</tr>
<tr>
<td>Research institutions, Researchers</td>
<td>information, cooperation, economic research assignments, grants and other research financing</td>
<td>information, cooperation, social research assignments</td>
<td>information, cooperation, environmental research assignments</td>
</tr>
<tr>
<td>Shareholders</td>
<td>higher return on investment and dividends through economic improvements, synergies and innovations, information, cooperation</td>
<td>higher return on investment and dividends through social improvements, synergies and innovations, information, cooperation</td>
<td>higher return on investment and dividends through environmental improvements, synergies and innovations, information, cooperation</td>
</tr>
<tr>
<td>Suppliers</td>
<td>economic opportunities (and no threats) of M/A, information, cooperation</td>
<td>social consequences of M/A in safety &amp; training, information, cooperation</td>
<td>environmental requirement changes of M/A, information, cooperation</td>
</tr>
<tr>
<td>Trade unions</td>
<td>sufficient financial results to secure sustainable employment and good enough rewards for the employees, information, communication</td>
<td>improved collective labour agreements and negotiation opportunities, improved working conditions, information, communication</td>
<td>improved environmental conditions, employee incentives to enhance environmental innovations, information, cooperation</td>
</tr>
<tr>
<td>Non-human stakeholders:</td>
<td>Economic M&amp;A responsibilities:</td>
<td>Social M&amp;A responsibilities:</td>
<td>Environmental M&amp;A responsibilities:</td>
</tr>
<tr>
<td>Air (atmosphere)</td>
<td>investments in innovations and technologies to improve air quality locally, regionally and globally</td>
<td>donations to improve air quality locally, regionally and globally for present &amp; future generations</td>
<td>zero/minimum emissions into the air, no greenhouse gas emissions, protection of the atmosphere of the earth</td>
</tr>
<tr>
<td>Land (biosphere)</td>
<td>investments in innovations and technologies to improve land quality…</td>
<td>donations to improve land quality… for present &amp; future generations</td>
<td>zero/minimum emissions into soils, protection of land and landscape</td>
</tr>
<tr>
<td>Water (hydrosphere)</td>
<td>investments in innovations and technologies to improve water quality…</td>
<td>donations to improve water quality… for present &amp; future generations</td>
<td>zero/minimum emissions into waterways, protection of aquatic environs</td>
</tr>
<tr>
<td>Rock (geosphere)</td>
<td>investments in innovations and technologies to replace use of minerals</td>
<td>donations to replace oil and metals with biofuels and biomaterials…</td>
<td>zero/minimum use of unrenewable natural resources</td>
</tr>
<tr>
<td>Flora</td>
<td>investments in to innovations and technologies to protect plants and biodiversity…</td>
<td>donations to protect plants… for present &amp; future generations</td>
<td>sustainable use of plants, responsible genetic development of plants, protection of vegetation</td>
</tr>
<tr>
<td>Fauna</td>
<td>investments in to innovations and technologies to protect animals and biodiversity…</td>
<td>donations to protect animals… for present &amp; future generations</td>
<td>sustainable use and good treatment of animals, their responsible genetic development, game protection</td>
</tr>
</tbody>
</table>
Many human stakeholders of any company as possible. Many people think that the interests of nature are looked after by several human stakeholders (e.g., Stead and Stead 2000) but others (e.g., Starik 1995) say that human stakeholders, even environmental groups, have conflicting interests for which reason nature needs to have a managerial standing of its own in corporate decision-making.

The economic, social and environmental responsibilities of companies involved in M&As illustrated in table 1 are the issues the stakeholders should be allowed to decide together with the company. They are the areas in which the top management should delegate power in order to enable the stakeholders’ participation in the planning and execution of the M/A.

Table 2 shows what roles of the top managers of responsible companies have in M&As. These top dogs are usually active in the (1) idea generation of the potential merger or acquisition. Once there seems to be a plausible M/A idea to carry out, the responsible top dogs involve the internal and external human and non-human stakeholders in the M/A process by (2) delegating power for the planning and execution of the M/A through stakeholder participation. Because of the large number of stakeholders and their varied and partially conflicting interests, this may a long and difficult process. This is one reason so few companies choose the participatory path in M/A and prefer to conduct it in a dictatorial fashion. That, on the other hand, is the reason why so many M&As fail: the stakeholders are not satisfied with the dictatorial M/A outcomes and either opt out or sabotage the results. The top dogs are (3) responsible for achieving the goals of the M/A. Economic goals of responsible M&As are in fact (a) intermediary goals: they are means to the end, to the (b) ultimate goals, which are the wellbeing of humans and nature.

Both the intermediary economic goals and ultimate social and environmental goals of M&As can be evaluated through well-known measurements, some of which are listed in table 2. It must be noted that, while all stakeholder groups have individuals who are concerned about the wellbeing of nature, as the environmental responsibility column of table 1 showed, they also have other, social and economic interests of their own which may in conflict with their nature concerns. For this reason nature has its own say in the M/A process through its well-demonstrated reactions to business and other human actions. The non-human stakeholder responsibilities of table 1 and environmental results of table 2 should be updated according to nature’s on-going responses. It may be difficult to decide which nature’s responses should be included as it is the humans who decide. Often long-term scientific research brings rather reliable answers to this question. Most people can observe the environment to see nature’s current responses but
### Table 2. A Model of a Responsible M/A.

<table>
<thead>
<tr>
<th>TOP DOG ROLES:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Idea generation</strong></td>
<td>AN IDEA OF A MERGER OR ACQUISITION (M/A)</td>
</tr>
<tr>
<td><strong>2. Delegation of power for the</strong></td>
<td>INTERNAL HUMAN STAKEHOLDERS: owners of family businesses, managers and employees</td>
</tr>
<tr>
<td><strong>planning and execution of a</strong></td>
<td>EXTERNAL HUMAN STAKEHOLDERS: authorities, business associations, competitors, contractors, customers, distributors, environmental groups, financial analysts, governments, insurers, legislators, local people, the media, NGOs, partners, politicians, the public, researchers, shareholders, suppliers, trade unions, etc.</td>
</tr>
<tr>
<td><strong>stakeholder participation</strong></td>
<td>NON-HUMAN STAKEHOLDERS: air, land, water, rock, flora and fauna</td>
</tr>
<tr>
<td><strong>3. Responsibility for achieving:</strong></td>
<td></td>
</tr>
<tr>
<td><em>(a) Intermediary goals</em></td>
<td>ECONOMIC RESULTS:</td>
</tr>
<tr>
<td></td>
<td>- High: turnover, profits, return on investment, dividends, social and environmental investments, work and business opportunities</td>
</tr>
<tr>
<td></td>
<td>- Fair: wages and rewards paid to employees and managers, taxes paid to states and municipalities, interests paid to financiers, premiums paid to insurers, services from contractors and partners, purchases from suppliers, sales to distributors and customers, support to local communities, support to charitable purposes</td>
</tr>
<tr>
<td></td>
<td>- No: breaches against laws, no fines</td>
</tr>
<tr>
<td></td>
<td>- Compliance with: IFRS and codes of corporate governance</td>
</tr>
<tr>
<td><em>(b) Ultimate goals</em></td>
<td>SOCIAL RESULTS:</td>
</tr>
<tr>
<td></td>
<td>- For internal human stakeholders: fair salary structure, low employee turnover, high years of service, harmonized age structure, meaningful work, good job satisfaction, zero/minimum occupational accidents and deaths, minimum days of sick leave, comprehensive health care, enough training, recreational activities, compliance with ILO Labour Rights</td>
</tr>
<tr>
<td></td>
<td>- For external stakeholders: compliance with Fair Trade Rules and Principles of Responsible Imports</td>
</tr>
<tr>
<td></td>
<td>- For all human stakeholders: compliance with UN Human Rights Declaration, UN Child’s Rights Declaration and Agreement and SA8000 Social Accountability Standard; cooperation, justness, generosity, kindness, loyalty, flexibility and reliability</td>
</tr>
<tr>
<td></td>
<td>ENVIRONMENTAL RESULTS:</td>
</tr>
<tr>
<td></td>
<td>- small ecological footprint, small energy footprint, high use of renewable + low/zero use of unrenewable natural resources, low energy consumption, high energy efficiency, low water consumption, minimum/zero emissions into air, water and soil, minimum/zero waste, efficient waste treatment methods and recycling, zero leaks and spills, no fires, compliance with ISO 14001 or EMAS Standard, protection of plants and animals, securing ecosystem balances</td>
</tr>
</tbody>
</table>
when it comes to interpreting and predicting the long-term effects of these responses research is needed. Nature’s responses should be taken into account at the latest when the scientific community agrees that they are serious and/or potentially disastrous in the future. M&As may increase or decrease their impact.

A CASE STUDY OF AN IRRESPONSIBLE MERGER

A major oil, gas and chemicals company (here referred to as the oil company) and a large but slightly smaller electric and heat company (here referred to as the electric company) merged in 1998 in order to become a holistic energy company. Both companies were old: the oil company was established in 1948 and the electric company already in 1932. Both companies had always been state-owned so as to secure the energy self-sufficiency of the country but the share of state ownership in both companies started to decrease in the 1990s when these companies had several share issues and decided to enter the stock exchange. By the merger in 1998 the state owned about 75 per cent of both companies.

The motives of the merger were both economic and social: economy of scale, higher return on investment and further chances for the major shareholder, the state, the to cash in by selling stocks and building an energy department store incorporating all different forms of energy under the same umbrella.

The merger was planned and executed by an oligarchy consisting of the CEOs and the Boards of the two companies and the Minister and Head of Office of the Department of Trade and Industry. Other internal and external stakeholders were not consulted. Official notice was given of the final decisions. As a by-product of the merger, a management option scheme for the top 350 directors of the new company created by the Boards of the two companies was accepted by the supervisory boards of the companies and the Department of Trade and Industry.

The merger seemed to be a financial success: the shares of the new company sold extremely well, the share price rocketed, turnover and profits were high and good dividends were paid to the shareholders. In consequence, the option schemes exceeded the top managers’ wildest dreams. By 2005 the new company had paid its 350 top managers options that totalled 500 million euros. The CEO alone had cashed in options worth 2,4 million euros which was 1,000 times more than the average monthly salary of a citizen of the country - and another 12 million was still to materialize for him. There was a wide consensus in society that the options were excessive. Many politicians and
some of the Ministers, even those in the Department of Trade and Industry shared this view but they could not do anything because the option scheme was legally binding. The reason for the success was not the merger or managerial excellence, but the soaring prices of electricity and oil. Also the state cashed in some more money by selling its stocks in 2000 and 2002 so that state ownership decreased to 60 per cent. Other stakeholders did not benefit from the merger. Since the two companies operated in different lines of business the merger did not bring any new work or business opportunities, nor did it increase the rewards given to other stakeholders than the top management and shareholders. The merger was economically unjust and its benefits were unevenly spread. Thus the level of economic responsibility of the merger is questionable.

The merger did not further corporate social responsibility either. As far as the internal stakeholders, the personnel, was concerned, many clerical employees were laid off when the headquarters of the two companies merged. Most workers could stay because of the non-existent overlap in the production operations of the companies. Some top dogs had to go, not because of overlap but because of internal conflicts and some attempts to avoid them. The merger was timed so that the CEO of the oil company was due to retire and the CEO of the electric company took the reins although he came from the smaller part of the merger. Immediately the following year after the merger the large and very international chemicals sector of the former oil company was sold and its director had to leave the company. The CEO of the electric company did not manage to integrate the two fiercely independent and self-respecting companies of the merger and was replaced first by the director of oil sector and finally by a CEO recruited externally. The new CEO was supposed to be impartial and harmonize the two cultures into one but the gap was so wide that he, too, ended up choosing his side: he started to play for the electric side of the merger. Some time later the director of the oil sector left because of irreconcilable differences.

The social responsibility initiatives, policies and practices of the two companies did not improve after the merger. The safety record worsened: occupational accidents and deaths increased. The new company did not like the general societal trend of increased corporate responsibility towards external stakeholders and refused to adopt the SA8000 Social Accountability Standard.

The opportunities to increase environmental responsibility after the merger were outstanding. The electric company had renewable (water and solar) energy plants, risky, waste-problematic nuclear plants, which nevertheless reduced greenhouse gas production, and unsustainable coal power stations. The oil company had two oil
refineries with environmentally high technologies to refine cleaner fuels as well as natural gas imports – both unsustainable fossil energy forms but less environmentally malignant than the competitors had. The new company could have increased and improved its renewable and sustainable energy forms and gradually phased out the unrenewable and unsustainable energy forms – but it did not. The company wanted to exploit all market opportunities to the full and succeeded in selling such high volumes of oil products and electricity at such a price that it became worth its weight in gold.

The internal conflicts did not disappear, however. The corporate cultures of the two companies had developed over the 50–60 years of independence. Furthermore, the secretive and unjust actions of the top dogs of the two companies during and after the merger could not be forgotten. The war went on with lots of backstabbing. For example the money from the sales of the chemicals sector of the former oil company was spent on buying water power plants and investing in a new nuclear power plant, both investments belonging to the former electric company’s domain. The top management of the electric company invaded the headquarters of the oil company and slowly but surely pushed the oilmen out to their refineries. The magnificent headquarters, the tallest and most splendid building in the country, had been built by the first CEO of the oil company in the 1970s to symbolize the power and potency of the oil company. Now it symbolized the power and potency of the electric company over the powerless, impotent oil company.

Finally in 2004 it was decided by the new company and the government that the merger should be dissolved and the two companies separated again. The state kept its majority share of both companies. In 2005 the oil part of the merger was sliced off as an independent company from the merger. The gas sector remained in the original merger and was integrated more tightly into the electric company to form a major energy company. Compared to the situation before the merger, the electric company had gained a gas sector and bought more water power plants and a share in a nuclear power plant while the oil company had lost its chemicals and gas sectors and was now only an oil company. Nevertheless, both companies continued to make excellent financial results for the shareholders and top management. The shares of the new oil company sold like hot cakes and the share price of both companies increased manifold because of the increases in the oil and electricity prices.

Despite the state ownership, this merger is rather typical: looking after the economic interests of shareholders and top management are the main motives and goals of the merger; the corporate economic responsibility for other stakeholders as well as corporate social and responsibilities are ignored. The model of a responsible M/A
introduced in this paper aims at changing this trend so that mergers and acquisitions could become just and fair changes to all stakeholders, human and non-human.

CONCLUSIONS: POWER AND RESPONSIBILITY IN M&As

Quantitatively: Power = Responsibility in M&As

Power and responsibility should walk hand in hand: little power, little responsibility; lots of power, lots of responsibility. That is seldom the case in reality – also in M&As. The Chairmen, Chief Executive Officers (CEOs) and Directors of companies have the greatest power but if things go wrong and/or the M/A goals are not met, they find other to blame. Often these scapegoats are lower level managers who have had no or little real power in the M/A planning and execution process.

It is a well-known fact that those who have aspirations to power, do not always care to take responsibility for the M/A decisions they make on the basis of the power they have gained. Instead they, often unconsciously, choose “slaves” from among their staff who have to take responsibility although they have not had any power to influence the M/A results (see figure 2).

![Figure 2. Power with no responsibilities, responsibilities without power (Ketola 2005: 179).](image)

The CEO (Master) protects his/her favourite Assistant Directors and young protégé managers so that they escape responsibility for their actions during the M/A. Workers
and experts usually cannot be blamed for the M/A failures either, since experts only give advice and recommendations and workers simply execute orders. The chosen slave, usually middle or lower level manager is “lynched” in public for the failed M/A so that all the others can continue business as usual.

And yet, the truth is that while power can be delegated, responsibility cannot. This is hard for a typically power-seeking top manager: s/he should give up some of her/his power to stakeholders but s/he should take the final responsibility for their actions.

**Qualitatively: Extent of corporate responsibility in M&As**

Another issue that is very difficult for present-day market economy top managers to grasp is the extent of responsibility which companies have for their personnel, business environment, society, humankind, ecosystem and planet earth. A genuine measure for humanity is whether an individual is prepared to help also others than those in his/her immediate circle. This measurement can be applied to companies: are companies prepared to help also others (broad responsibility) than their owners (owner-focussed responsibility) and nearest stakeholders (conventional stakeholder responsibility)?

If people in companies stop to think why business is run in the first place, they realize that it is done for the wellbeing of everyone living on this planet. Human and nature wellbeing is in the interest of all, including companies. If a company contributes to advancing this wellbeing, it is rewarded with continuity, creativity and success.

Carl Gustav Jung (1958) was pessimistic about the chance to develop collective responsibility. He believed that the level of the collective psyche of a group is lower than that of an individual. The saying “the mob has many heads but no brains” shows that this fact is well known among people. Ollila (1997) has adapted Jung’s thoughts to business life: companies inevitably regress to a more primitive level. The main objective of this collective becomes securing its survival by fair means or foul. Content is sacrificed for the benefit of form and cohesion. Hence companies narrow-mindedly and violently focus on maximizing their profits and growth, which are the legitimate keys to survival in contemporary society. In this race the collective forgets its members’ noble thoughts about the meaning of life. The collective and its members are overwhelmed by their greed, envy, slynness, hostility and arrogance.

However, neither Jung nor Ollila gives in to evil collective behaviour; instead they believe that the collective mind could also be recruited to serve the good. A group can inspire an individual for noble goals and give an experience of human solidarity. A group can give an individual courage and dignity, which easily fade in isolation. This collective sense of responsibility could be the basis of corporate responsibility. The
tsunami in South East Asia brought about collective responsibility: both individuals and companies all over the world donated money, products and services to help the victims. Such a sense of collective responsibility among companies does not need remain an isolated event but could be extended into continuous sense of joint responsibility, which makes the M&As as well as the missions, goals, strategies and practices of companies holistically responsible.

According to Jung, the inevitable regression of a collective can be diminished by rituals. Performing sacred rituals becomes the focus of collective action, and it prevents the groups from falling into unconscious, instinctive behaviour. Corporate rituals include corporate values, discourses and practices as well as their strategic and operational planning and execution. M&As can be equipped with responsible rituals presented in table 1. With the rituals companies can rise from their primitive behaviour to conscious virtues of justness, generosity, kindness, moderation, reliability, flexibility and loyalty.

REFERENCES


