Insights Regarding the Degree of Industry and Occupational Relatedness and Merger & Acquisition Outcomes

Terry A. Ruhl, P.E., F. ASCE, DrBA
Completed as a Doctoral Candidate
DePaul University/Kellstadt Graduate School of Business
1 East Jackson Boulevard, Suite 5300
Chicago, Illinois60604-2287

Abstract

Mergers and acquisitions (M&A) are complicated transformational events that hold myriad risks for the acquiring firm. Recent research suggests that oft-cited requirements to manage cultural compatibility at an organizational level are further complicated by meeting the dominant needs of individual employees on either side of the M&A dyad. However, as cited in the extant literature and summarized herein, leaders of professional service firms must account for issues that arise from industry and occupational relatedness to accurately assess the strategy of merging two organizations. These relatedness concepts can instill additional risk for ultimate M&A success, leaving limited management options for the post-merger integration leadership teams. Thus, leaders must be mindful of these critical issues prior to the development of any holistic M&A strategy, inclusive of partner selection.

Key Words: mergers and acquisitions, industry relatedness, occupational relatedness, professional service firms, post-merger integration

1. Background, Context, and Research Question

Formulating a model framework for the antecedents of successful mergers and acquisitions (M&A) among professional service firms (PSFs), Ruhl (2020) finds that firm-level operational differences in terms of the perceived change in organizational autonomy after integration has little or nothing to do with an individual's job satisfaction, organizational commitment, or turnover intentions. Instead, professionals who work autonomously gauge their response to post-merger integration (PMI) operations with the often-used adage, "what's in it for me"?While this could be due to the inability to sufficiently measure differences in organizational-level operational routines, or even cultural differences between firms, it also suggests there may be more similarities than differences between the acquirer and target firm, possibly due to *industry* and even *occupational relatedness* in the architecture/engineering (A/E) PSF domain.

Little is known about the relative importance or limitations of these concepts as they apply to PSFM&A outcomes. Anecdotally, limited success has been found when PSFs *vertically integrate* unrelated businesses. Yet, significant attention is being paid to combining engineering services and construction resources into one entity (Gregerson, 2018). Also, current objectives to increase technology-based competencies in A/E PSFs have increased M&A in these areas appreciably as well (Parsons, 2019);however, outcomes are unclear because it is not known how the perceived differences in the approaches and culture related to technological innovation and experimentation will merge with more conventional A/E PSF approaches of "tried and true" business tactics and attitudes among staff. Thus, the research question becomes: to what extent could the degree of industry and occupational relatedness impact A/E PSF M&A outcomes based on a summary of the scholarly research as it relates to these two anecdotal examples?

2. Industry Relatedness

Referencing seminal research across industries, Canina (2009)employs a service industry perspective (although not PSFs) to summarize that the degree of relatedness synthesizes the internal (culture) and external (target market or business) similarities between two firms, wherein it has been found that low levels of internal or cultural relatedness tend to lead to lesser, or unfavorable, M&A outcomes. Directionally similar, high levels of external, or business relatedness, are associated with potentially greater chances for M&A success. Moreover, horizontal mergers are typically known to yield improved outcomes, as opposed to M&A involving vertical integration strategies (Canina, 2009), consistent with the anecdotal views, above. However, a seminal meta-analysis by Stahl and Voigt (2008) provides evidence that cultural relatedness between the acquirer and target could affect M&A results in different, and sometimes opposing ways, as witnessed by the small effect sizes between organizational culture and a variety of M&A outcomes.

In a detailed meta-analysis across 67 studies, Homberg and colleagues (2009)determine that drawing conclusions regarding the synergies in M&A based on industry relatedness needs to be broken down further into business, cultural, technological, and size components. They find that an aggregated comparison of "industry relatedness" does not yield conclusive results, suggesting that relatedness does not automatically increase the likelihood for improved shareholder outcomes. While citing that horizontal M&A tends to outperform a vertical strategy, only business and technology relatedness are positively related to overall M&A performance while cultural and size relatedness are negatively related to shareholder outcomes (Homberg, Rost, & Osterloh, 2009). In summary, the authors articulate that "economies of sameness" through business relatedness provide a superior foundation for successful M&A. At the same time, they find that providing some level of cultural difference can actually enhance M&A outcomes.

Additionally, the Homberg et al. (2009) study references the trends of building contractors acquiring service providers as a result of technological relatedness, citing mixed and inconclusive results, similar to the anecdotal information presented earlier. The study highlights that "moderate M&A synergies" result when firms work in related business areas, building on similar, complementary technologies. In other words, M&A is likely to be more successful between similar PSFs, as opposed to vertically integrating consulting and construction businesses.

Relative to size relatedness, Homburg and colleagues find that M&A between firms with overlapping size characteristics (e.g., revenues, employees, enterprise value) provide additional risk for success, consistent with recent PSF findings (Ruhl, 2020). And, addressing the research question associated with technology relatedness directly, the meta-analysis highlights that M&A in the technology sector can witness positive M&A synergies, even under dissimilar cultures, as long as the acquirer is "not too large" (Homberg, et al., 2009; p. 101).

3. Occupational Relatedness

Occupational identification is "the degree to which employees integrate working in a focal occupation into their self-concept," or how people tend to define themselves by their occupational role; however, this construct has been widely overlooked in post-acquisition research (Steigenberger & Mirc, 2020; p. 983).Two recent studies have provided new, empirical evidence that employees, especially professionals, tend to identify with their occupational identity as much, if not more, than their affiliation with their organization. Therefore, the impact of an individual's commitment to their profession, occupation, or role may be as important as the individual's commitment to the organization, resulting in significant impacts to various job outcomes, including turnover intentions (Kroon & Noorderhaven, 2018; Steigenberger & Mirc, 2020). In addition, Steigenberger and Mirc (2020) find that highly autonomous professionals are likely to be more impacted by occupational identification in a PMI process than non-professionals due to their focus on status and independence, including being more sensitive to workplace identity and unmet expectations through organizational change.

In other words, the "what's in it for me" results of the recent research on A/E PSFs relative to an individual's job outcomes (Ruhl, 2020) may be deeply related to occupational identification, and in fact, could be part of the reasoning behind the limited moderation impacts of the PMI leadership team found in the study. The occupational identity research lends additional support to the unique elements of PSF culture wherein role independence is a "cherished professional value" that drives individual reactions to change, including evidence which suggests these differences are based on the influence and power provided to professionals in shaping the change outcomes or in their ability to "renegotiate" an acceptable alternative role (Schilling, Werr, Gand, & Sardas, 2012).

4. Summary and Conclusions

Decision-makers must exercise caution and a degree of skepticism with the promise of M&A synergies resulting from industry relatedness in an aggregate view, especially when developing a holistic M&A strategy, inclusive of partner identification and selection. Through the detailed industry relatedness meta-analysis by Homberg et al. (2009),the likely solutions are bifurcated into the specific details of business, technological, cultural, and size relatedness, which can impact outcomes by opposing means. And, while the research highlights that even higher levels of caution must be placed on vertically combining construction and service industry (PSF) providers, specifically, the dissimilar cultures provided between service firms and technology providers may offer future promise above and beyond current anecdotal views. In this case, beyond technology and cultural concerns, the relative size between the acquirer and target also becomes an important consideration in any M&A strategy involving PSFs.

The very recent, yet limited, research on occupational identification provides additional support to the complexities of M&A in PSFs, and even more warning to leadership of these firms – no matter the construct, composition, and culture of the organization, the strength of occupational identity or relatedness among professionals may be more critical in successful change strategies than what is under the control of management.

While professionals have a strong affiliation with their occupation/profession that provides a sense of community, togetherness, and belonging – the autonomous and independent nature of these specific occupations can create a high degree of self-interest that presents additional challenges for M&A success in PSFs. Thus, maintaining some level of company and individual autonomy is relevant when considering partner identification and selection, wherein the amount of overlap between firms, including size and other firm-specific characteristics, should be minimized.

5. References

Canina, L. (2009). Mergers and Acquisitions Degree of Relatedness. *Cornell Hospitality Quarterly 50*(3), 278-280. *(Introduction to Special Edition).*10.1177/1938965509342153.

Gregerson, J. (2018, May 16). *Momentum for Industry Mergers and Acquisitions Continues to Grow*. Engineering News-Record.https://www.enr.com/articles/44496-momentum-for-industry-mergers-and-acquisitions-continues-to-grow.

Homberg, F., Rost, K., &Osterloh, M. (2009). Do synergies exist in related acquisitions? A meta-analysis of acquisition studies. *Review of Managerial Science*, *3*(2), 75-116.

Kroon, D. P., &Noorderhaven, N. G. (2018). The role of occupational identification during post-merger integration. *Group &Organization Management*, *43*(2), 207-244.

Parsons, J. (2019, May 22). *Recent Mergers Driven by Technology Needs*. Engineering News-Record. https://www.enr.com/articles/46921-recent-merger-activity-driven-largely-by-technology-needs.

Ruhl, Terry A. (2020).*Growth Strategies Through Mergers and Acquisitions in Knowledge-Based Companies – The Case for Architect/Engineer (A/E) Professional Service Firms (PSFs)*. [Doctoral dissertation, DePaul University].

Schilling, A., Werr, A., Gand, S., &Sardas, J. C. (2012). Understanding professionals' reactions to strategic change: the role of threatened professional identities. *The Service Industries Journal*, *32*(8), 1229-1245.

Stahl, G. K., & Voigt, A. (2008). Do Cultural Differences Matter in Mergers and Acquisitions? A Tentative Model and Examination. *Organization Science,19*(1), 160-176.10.1287/orsc.1070.0270.

Steigenberger, N., &Mirc, N. (2020). Should I stay or should I go? Multi-focus identification and employee retention in post-acquisition integration. *Human Relations, 73*(7), 981-1009.