Managing Strategic Change: A Case Study of Projacs International and Projacs Kuwait

Executive Summary

Mergers are just one of the many causes of strategic changes that organisations go through. To be able to effectively manage this type of change, it is only wise that the management considers all the areas in the organisation that are going to be affected. Projacs International is what resulted after the merger between Projacs and Projacs International. The merger gave the companies a chance to pool their resources together to better manage their expenses and their clients. The new company could now attract fewer taxes, and their corporate bond helped them to deliver project management undertakings even better. As would be expected, mergers just like other forms of strategic changes within the organisation are likely to highly impact on the employees due to the need to adjust to the new culture. Employees from Projacs Kuwait were especially affected since they had to move offices. Some were laid off, and it was especially hard for some previous heads of department to be put under new departments when they were used to being the heads. Projacs International had to deal with the differences in culture, which, if left unattended, would have a negative impact on the company.

Integration of the employees served a central role in reconciling the two companies. This could be a lesson to many companies planning to enter into a merger in the future. There are measures that companies should put into consideration to ensure a successful transition as this paper will reveal.

Introduction

The effective management of mergers and acquisitions is an undertaking that could prove challenging to most managers as the companies undergo strategic change. Reports show that merger failure rates range between 35 per cent and 60 per cent (Pautler, 2003, p.13). This is the result of the demanding nature of mergers and the inability of managers and employees to adjust to the change. Mergers require the re-alignment of procedures, distortion of the hierarchical structures within the company, and at certain times the movement to another office—all of which are bound to cause a considerable effect on the employees and the organisation as a whole. Managing this strategic change requires that managers address all aspects of the organisation that have been affected. The Projacs International and Projacs Kuwait merger is a good illustration of the effect of mergers to the organisation, their benefits, and the possibility of going through the transition period effectively. The effect on the employees due to changes in the organisation and the differences in corporate culture came as a barrier to change during this merger, and the company had to do everything possible to make the merger a success. This paper addresses the merger to give a practical view on management of strategic change.

Findings

Projacs International

Projacs International has been in existence since 1984 and has become one of the leading project management companies in the Middle East as well as in other parts of the world. Projacs International consists of well-trained staffs that have been the cornerstone of its success. The company that has achieved a growth rate of 36 per cent per year since 1998 has completed over 250 major projects. Projacs International operates in Bahrain (headquarters), Saudi Arabia, Kuwait, Qatar, Bulgaria, Jordan, Syria, and Morocco among others, having a total of 23 branches. Projacs International specialises in project management for professional bodies and companies, and undertakes, among others, construction management, value engineering, design management, training, and technology transfer.

Projacs Kuwait

Projacs' main area of operation was project management just like Projacs International. The only difference now is that the company operates at a lower scale, mostly serving clients from Kuwait and the neighbouring countries. As a company, Projacs had established an organisational structure consisting of heads of departments—all of which had subordinates reporting to them. As a small firm, the company faced stiff competition from the giant Projacs International such that the move to form a merger was a welcome idea after lengthy discussions with the board members.

The Merger (Key Drivers)

When Projacs International planned a merger with Projacs Kuwait, this was a move that the two companies had agreed would be a profitable undertaking by combining both their resources and human capital for sustainable development (Connor, 2003, p.219). The move came as a result of the realisation that the two companies were operating in the same field, yet they could do even better if they operated under the same umbrella. For this reason, a merger appeared to be a wise step into making the two companies more successful and in pooling of resources. Again, while the companies could pay less tax by forming one company, the companies also saw this as an opportunity to consolidate their processes and reduce their expenses (Salter, 2008, p.167). Projacs Kuwait now stood to benefit from the name of Projacs International, which is well-recognised throughout the Middle East as one of the best project management company (Carmelli, 2003, p.78). The company could benefit not only from increased recognition but also from more business as the two companies undertook their operations jointly.

The Effects of the Merger

When the management of the two companies decided that they could do better if they worked together than when they worked singly, the resulting merger had a considerable effect on the employees at Projacs Kuwait. Most felt that their system had been distorted as they had to move into new departments under the new arrangement. These were more felt by employees who were already heads of departments at the Kuwait office who had to join new departments probably as normal employees (McConnel, 2008; Salter, 2008, p.159). Several resigned, and negative attitudes toward the new heads of departments were witnessed in those who were left behind. This displays the negative side of mergers that companies are likely to encounter (Schaubroeck, 1999, p.234). The challenge now comes in the manner in which they handle these kinds of effects. This is where the management of strategic change comes in. The various changes felt in the organisation had a great impact on the employees and more so the heads of departments such that the company lost valuable employees.

Key Barriers to Change

a) Employee attitude and resistance to change

By the time of the merger, Projacs Kuwait had established a stable organisational structure and a defined system of management. The company had also forged ties with several other companies that acted as their clients. As a result of the merger, there was a destabilisation effect with employees and clients having to come to terms with the fact that they would now be dealing with Projacs International (McConnel, 2008, p.77). Some staff members had to be moved to Bahrain under new departments, and the organisation structure therefore had to be re-arranged. Employees acted as a barrier to change as several did little to co-operate after the merger (Regester, 2008, p.55). The company suffered loss as some of the heads of departments and other employees left the company humiliated by having to work under new heads when they were used to being in command (Mullins, 2001, p.8). Those who were left had an attitude toward the departmental heads, which was not good for the company. This can be explained in terms of Abraham Maslow's psychological theory emphasising the concept of self-actualisation (Smith, 2001, p.69). Self-actualisation refers to a peak of time, especially in one's career, when a person is likely to feel that he or she has really achieved something desired in life (Smith, 2001, p.71; Anderman, 2004, p.125). Being taken from such a position and having to wait to become a head again is enough to reduce motivation, which explains why some of the employees quit (Nicol, 2001, p.97).

b) Culture

Just like any other company experiencing change as a result of a merger, Projacs' corporate culture was bound to be different from that of Projacs International such that the employees found it particularly difficult to work with each other. The organisational structure of Projacs International was a bit complex considering that it is an international firm (Regester, 2008, p.56). The new organisational structure is shown in Figure 1 in the appendix. Projacs workers from Kuwait needed to adjust from a more simpler structure involving a few heads of department to a structure with Projacs Kuwait employees were to face a more complex situation as it is them who had to move to Bahrain.

Overcoming the Barriers

Differences in corporate awareness were the first issue to be addressed. Projacs International, as the company came to be known, was facing differences in its corporate procedures due to the employees' different backgrounds (Regester, 2008, p.58). These two had to be integrated to ensure compatibility and proper coexistence for effective production to take place. Projacs International, therefore, organised forums in which the employees met to discuss various issues and share their experiences about their companies. This way, most of them could now identify with their colleagues, leading to better working relationships.

The issue of company heads was much more complex to sort out. Former heads of departments still felt that the company had not been fair by placing them under new heads. The human resource department was given the mandate to ensure that the employees would accept this reality with time. To do so, a lot of meetings were called to address the issue, and an increase in salaries and benefits helped make the situation better. There was no way of getting back the talent that had left the firm through the resigned employees, but these could easily be replaced from within the company as well as hiring from outside.

Observations and Recommendations

1) Defining corporate goals set by the two companies is one of the most important aspects to ensure the success of a merger (Pautler, 2003, p.11). This also involves addressing all the cultural differences of the merging businesses. The case of Projacs International and Projacs Kuwait had clear-cut goals and objectives. The cultures in the two organisations, however, differed in that Projacs International was already an international firm dealing with not only local clients but also international ones. It would take time for Projacs Kuwait's staff to adjust to the culture of chasing international clients after having been used to local clients. To counter such kind of a barrier to change, there should have been extensive training prior to the merger to make the employees familiar with Projacs International's corporate culture.
2) Interactive sessions between the companies' employees prior to the merger are an excellent move. These ensure that the employees share and get to know each other so that they will not be strangers once they start working together. Cooper (2007, p.111) noted that differences in an organisation are evident when employees cannot co-

operate due to lack of a bond between them.

3) In managing strategic changes within a company, managers should be aware that they expect barriers to change especially in the form of employees who are not ready to embrace change and who are likely to deter the effective progress of the change (Sisson, 2000, p.81). Other obstacles such as corporate culture differences and differences in strategies need to be addressed so as to effectively establish the changes in the organisation (Mickel, 2008, p.147; Yemen, 2007, p.234).

3) Strategic decisions on the long-term direction that the organisation is going to take ensure that the merger addresses the various concerns that the companies could have. Strategies undertaken should be discussed at length by the management of both companies and if possible consider the views of the employees about the future of the new company (Burtton and Stephanie, 1999, p.65)

4) The need for planning is inevitable in managing change. Planning early for the changes and more so preparation of staff for the transition will ensure that the chances of success of a merger is maximised (Balogun et al., 2008, pp.23-29; Mitroff, 2004).

70). Tactical plans ensure that the company puts more effort in implementing the plans rather than just drafting them (Murphy, 2003, p.11). Adequate preparation of the staff involves informing them in advance and briefing them on the likely direction that the merger will take and how it will affect the company as a whole (Libreni, 2001).

5) The management should also explain to the employees the benefits that the company stands to gain and the reasons or perceived potential benefits that led to the decision on the merger (Reh, 2009, p.1). Cartwright and Cooper (1996, p.50) noted that inconsistency in giving information is a major contributor to merger stress.

6) Retaining talent from the acquired firm is a sure way of enhancing success especially

where the company deals with more technical or professional undertakings such as project management by Projacs. Pautler (2003, p.12) said that it becomes difficult to retain in-house experience due to the rate at which staff are likely to leave the firm after a merger. The reference here is the number of employees that Projacs lost as a result of the reshuffling of management following the merger. These employees could have left with a lot of potential, and had Projacs defined ways of motivating them and helping them to adjust to the new system, then their departure could have been avoided (Libreni, 2001, p.74; Bromman, 1996, p.36).

7) Not talent and skills alone determine employees who are best suited for a certain position in the event of a merger. Their ability to cope with change and to adjust to new relationships is also important. Cartwright and Cooper (1996, p.62) noted that skills do not guarantee that the employee will be committed and effective. It is therefore essential that companies take into account the ability of individual employees to fit in and work well with other employees in the new working environment (Wiley, 1997, p.26).

8) Post-merger integration helps reduce debilitating effects that may result from conflicting plans, policies, and procedures. The merged companies should, therefore, undertake the process of harmonising their systems as fast as possible to facilitate the formation of the new company (Reh, 2009, p.1). The need to enhance compatibility is important in ensuring harmony within the organisation (Cartwright and Cooper, 1996, p.57). The companies should drive people toward making a homogeneous culture by creating collaborative relationships (Tichy, 1983, p.273; Shamsie, 2003, p.73).

9) As an HR strategy, a company undergoing a merger needs to come up with ways of motivating employees as they adjust to the new system (Lee, 2000, p.68; Anderman,

2004, p.117). Motivation helps shield the effects, making the employees focus less on them and hence be able to do their work well. The HR strategy also requires that the employees be not given tight targets during the transition period as this could lead to stress and poor performance (Whittaker, 1999, p.79).

10) Another key to maintaining success of a merger is to maintain focus (Murphy, 2003, p.8). This means that the companies involved need to keep revising the reasons as to why they came together and constantly study their progress to establish whether their plans are working accordingly.

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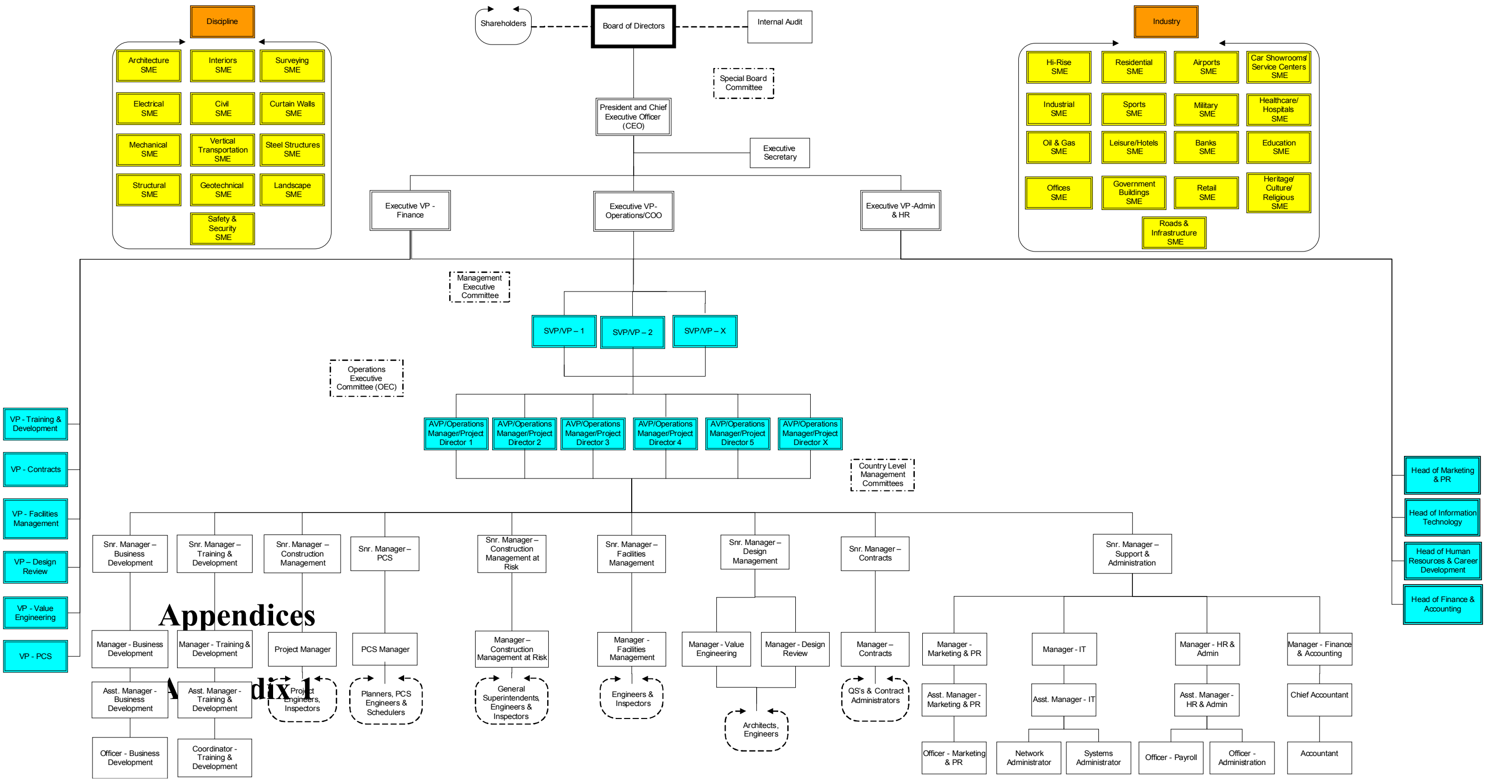
Appendix 1: New Projacs International Organisational Structure



Appendices

Appendix 1