The Potential for improving intra-organizational communication in the Process of Mergers and Acquisitions via Accounting Systems

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Abstract

As the number of mergers and acquisitions (M&A) continues to increase on a global basis, more managers are called upon to develop their M&A transition skills. While, undoubtedly, organizations realise the importance of good communications for successful implementation of change programs throughout the entire M&A process, they often find it hard to make this communication both constant and lucid. The article argues that accounting systems display the potential for improving intra-organizational communication by infusing managers and ‘non-accountants’ with a common financial vocabulary for communication and ‘reading’ the state of the business.

Introduction

Mergers and acquisitions (M&A) have become a fact of life for worldwide business (Brousseau, 1989; Cartwright and Cooper, 1996) and are frequent events in organizations today (Marks, 1997). Despite their popularity, however, the outcomes generated by these alliances are often disappointing (Shearer, 2001). In fact, they often fail (Sirower, 1997; Porter, 1987; Shearer, 2001). Importantly, while the contexts in which combinations occur may have changed, the results of M&A are no better today than they were a decade ago (Marks, 1997). In fact, now like then, fewer than 20 percent of corporate combinations achieve their desired financial or strategic results (Zweig, 1995; Davidson, 1991; Elsass and Veiga, 1994; Marks, 1997). It is acknowledged that factors such as paying the wrong price, buying for the wrong reason, selecting the wrong partner or buying at the wrong time might account for this disappointing track record (Cartwright and Cooper, 1996). However, another contributing factor to the high failure rate is lack of appropriate communication in the post-M&A integrating process (Marks, 1997; Noerreklit and Schoenfeld, 2000).

This paper reviews, briefly, the literature on the role of communication in the processes of major organizational change such as mergers and acquisitions
and attempts to draw managers, change champions and academics’ attention to the role of accounting as a potential means of communication in the processes of change.

The remainder of the paper is organized as follows. First, the role of communication in the processes of mergers and acquisitions is discussed. This is followed by the discussion of accounting as a powerful means of communication. Next, some evidence from empirical studies and, finally, concluding remarks are presented.

The role of communication

The literature indicates that communication is the most important variable for management throughout the entire M&A process (Appelbaum et al., 2000) and is the key to successful integration of two potentially clashing organizational cultures (Balmer and Dinnie, 1999; DeVoge and Spreier, 1999; Appelbaum et al., 2000). This includes integrating their different goals, values, beliefs, ideas, systems, leadership styles, management practices, and processes (Shearer, et al., 2001). Indeed, the problems, often, arise from a lack of understanding between working groups in merging companies or between headquarters and subsidiaries that decreases the effectiveness of cooperation (Noerreklit and Schoenfeld, 2000). Thus, as Henry (2002) states, communication is necessary for forming a strong commitment to blending business cultures and operations which is required for achieving successful M&A.

Similarly, Richardson and Denton (1996) emphasise the importance of communication in the processes of organizational change and transformation, especially in times of global competition and intense environmental change such as M&A. Moreover, they argue that change requires not only that good decisions be made about how the change will affect profits, productivity, or quality, but also that these points be well communicated (see also Appelbaum et al., 2000). Effective communication will inform employees that it is not what is done (or is going to be done), but rather why and how it is done (or will be done) which really matters (Appelbaum et al., 2000; Yazdifar, 2005). Emphasising the importance of communication, Cartwright and Cooper suggest:

Avoid ambiguous language and jargon specific to your own organization. This is important both at the time of the announcement and throughout the integration period in order to dispel rumours, reduce uncertainty and overcome the ‘fear-the-worst’ syndrome. Employees in acquisitions and mergers have tendency to attend to information which reinforces their worst fears regardless of the validity of the source. Clearly communicate the terms of the marriage contract, and the extent to which these are open to negotiations, by creating a climate conductive to shared learning. [...] Communicate on a regular basis, even if the content of the message is only to reaffirm that at the current time, there is little or no information to communicate (1996, p.122-3).
Therefore, during the M&A stage, appropriate communications, in addition to other requirements such as training, will equip employees with knowledge and tools to help them deal productively with the concept of constant change, to develop new relationships, and to engender the support of new managers (Sherer, 1994; Appelbaum et al., 2000). To that end, true business transformation means equipping employees with actionable knowledge and skills to achieve business results (Henry, 2002).

However, all forms of communication do not have the same effect and true communication is difficult to achieve since the communication process faces numerous potential obstacles (Appelbaum et al., 2000) and may lead “confusion or distortion” (Cartwright and Cooper, 1996, p.123), “misunderstanding or different interpretations” (Noerreklit and Schoenfeld, 2000, p.418). Furthermore, appropriate communication is necessary for change in behaviours and operations required for the successful execution of strategy (Henry, 2002)\(^1\). The literature of organizational change has mentioned various forms of communication and information flow such as: memos and written statements, e-mail, posters, videos, face-to-face contact or meetings (Appelbaum et al., 2000; Cartwright and Cooper, 1996). However, interestingly, there is a lack of understanding of the potential role of accounting for improving communication in times of major organizational changes such as M&A. Arguable, systems of measurement and accountability display the potential for improving intra-organizational communication by infusing managers and ‘non-accountants’ with a common financial vocabulary for communication and ‘reading’ the state of the business (Roberts and Scapens, 1985; Busco, 2001).

**Accounting as a powerful means of communication**

With the nature of M&A explained as an experience of “loss” by organizational members (Appelbaum et al., 2000, P.654), it could be argued that when organizations and organizational members face the need for a rapid change, accounting practices, along with other organizational systems, are likely to play an important role in helping them to cope with this loss, give direction, in order to be able to move on with the new entity. Organizations can be proactive towards processes of change by promoting their members’ knowledge and searching for better ways of doing work, as well as, questioning the existing knowledge and cultural assumptions (Hopwood, 1987; Dent, 1990; Noerreklit and Schoenfeld, 2000). In this situation, the role of accounting is not limited to traditional budgeting and accounting systems; rather, it takes a broad view and communicates this to facilitate organizational learning in response to change (Kloot, 1997; Nixon, 1998) at both macro (economy, market, M&A,...) and micro (organizational) level. It contributes establishing “a shared or joint understanding of common objectives and strategy” (Cartwright and Cooper, 1996, p.6) and gives direction “in order that values and beliefs can be translated into clear behavioural practice” (Cartwright and Cooper, 1996, p.146). This said, however, the outcomes are dependent upon both the characteristics and use of the organization’s accounting systems (Noerreklit and Schoenfeld, 2000).
Accounting is a fluid and emergent craft, its techniques have been implicated in a number of different ways during organizational transformations (Hopwood, 1987). To this end, rather than seeing accounting as a technical reflection of the pre-given economic imperatives facing organizational administration, it could be considered as actively contributing to the construction of organizational order, and a powerful means for positively enabling the governance and control of the organization as an economic entity (Clawson, 1980; Hopwood, 1987). From this perspective accounting could also be conceived of as creating new paths of ‘action’ (Hopwood, 1990; Busco, 2001), especially when there is a “loss”, for organizational members.

The constructive role of accounting has been debated within the literature (Hopwood, 1987, 1990; Macintosh and Scapens, 1990; Noerreklit and Schoenfeld, 2000). Accounting serves many purposes; one of the roles that it plays is “creating a quite particular visibility in the organization, making things visible that otherwise would not be” (Hopwood, 1990, p.8). Depicted as playing a “powerful role in organizational and social affairs”, accounting practices have been described as powerful communication means which have the ability to “influence perceptions, change language and infuse dialogue, thereby permeating the way in which priorities, concerns and worries, and new possibilities for action are expressed” (Hopwood, 1990, p.9). Moreover, accounting is “seen as being able to play a positive role in both shifting the pre-conditions for organizational change and in influencing its outcomes, even including the possibilities for its own transformation” (Hopwood, 1987, p.228).

Therefore, accounting is a strong mechanism through which information can be communicated to organizational members. Arguable, it can equip them with knowledge to help them deal productively with the concept of constant change and the successful development of new relationships arisen as a result of changes such as M&A. Thus, it could be argued “accounting as a means of communication” plays an important role in the facilitation of organizational learning. The link between accounting (with emphasis on management control practices) and organizational learning has been pointed out by Kloot (1997). He sustains that “management control systems affect the understanding of what those changes mean, how and what solutions might be generated, and a perception of whether the time has come to uncouple the organization from old structures and operating paradigms to move to new structures and paradigms”. Therefore, communication through accounting systems is a powerful means of both streamlining and improving intra-organizational processes. Furthermore, it can enhance organizational learning following any change at macro (e.g., economy, market, M&A) and micro (intra-organizational) levels. In so doing, accounting may be interpreted as a system of rules, roles and routines, drawn upon by specific organizational actors within the day-to-day process of creation, diffusion, maintenance and change of those taken-for-granted assumptions, values, philosophies which represent the ultimate source of organizational behaviour and patterns of interaction (Busco et al., 2002).

In fact, by interpreting operational, financial and strategic information, accounting systems are able to behave as repositories and carriers of a
common organizational language/knowledge informed by shared metrics of accountability (see Busco, 2000). Within such a scenario, accounting (management accounting and control) systems seem to play a key role in binding the dimension of change. In effect, accounting systems should not be regarded as objective and value-neutral tools, rather by carrying, defusing, validating, and institutionalising the taken-for-granted assumptions that constitute organizational learning, values and culture, they can be seen as communication technologies deeply implicated in the production and reproduction of shared organizational knowledge and values (Busco et al., 2002).

Noerreklit and Schoenfeld (2000) argue that management accounting system in multinational companies can be regarded as a useful management tool when it permits to deal with issues such as distortion in performance measurement and therefore prevents misinterpretations of actual performance. The system can be used as a tool for building a bridge connecting different understanding and to develop concepts into common area of understanding for both headquarter and subsidiary companies. This, consequently, “makes it possible for subsidiary and headquarters managers to reach consensus by means of a common language” (Noerreklit and Schoenfeld, 2000, p.424). The common language, accounting, help develop an understanding that assures cooperation. The same authors, then, suggest a model\(^2\) to develop the intra-organizational thinking between parent and subsidiary organizations in which there is a potential pivotal role for accounting. The effect of their model is shown in Figure 1 and Figure 2.

**Some evidence from empirical studies**

There are several studies which contribute to an understanding of the role of accounting in organizations and organizational change. For example, the study undertaken by Busco et al., (2002) in an Italian company taken over by an American company (GE) reports how an accounting system was used by its new owner (GE), to improve communication and integration by giving engineers and other nonfinancial personnel a common language of accountability based on financial and nonfinancial metrics. Furthermore, the study highlighted how this shared vocabulary (the accounting language) overcame the communication, cultural, and operational boundaries between the acquiring and acquired companies located in different parts of the world.

Several studies based on Japanese companies have also highlighted the role of accounting systems, even in simple forms, in communicating organizational information and contributing to a more thorough understanding of organizational objectives and strategy by organizational members (Howell and Sakurai, 1992). This understanding, leads to better direction of their actions in contributing to the overall achievement of objectives (Howell and Sakurai, 1992). Tanaka (1989), for example, explains how product designers are given both cost and functionality objectives and how this information results in better designs. Furthermore, using accounting language and working through accounting systems provided the companies with “a more formal, but open two-way
channel of communication” in which both sides were open to learning from one another (Martin et al., 1992). In addition, Hiromoto (1988) states that, known as an effective tool for information exchange, accounting systems in the Japanese organization are designed in a way which aligns employee and corporate objectives and provide influence and motivation of behaviour toward these ends (see also Monden, 1989a; Morgan and Weerakoon, 1989; Hariman, 1990; Martin et al., 1992; Jones et al., 1993). Similarly, McMann and Nanni (1995) conclude that communicating through accounting language has resulted in all levels of management in Japanese companies (studied by them) appearing to have an understanding of how the production processes and organization creates value. Thus, as Lavoie (1987, p.600) emphasized accounting should be understood as a language that enables communication to take place throughout the whole organization, “with a far greater number of communicative partners than anyone could feasibly talk to”.

Conclusion

The need to understand, manage and, possibly, drive the enhanced organizational complexity (especially following mergers and acquisitions) is undoubtedly one of the main challenges for current corporate leaders. Within this scenario, organizations leaders, in conjunction with other tools and techniques, can rely on the well-known capabilities of accounting systems to visualise, and measure the daily business activities and events, to justify new paths of ‘action’ (Hopwood, 1990; Ezzamel et al, 1999) and communicate them across the organization. By translating organizational strategies into a specific set of internal financial and non-financial target linked to specific production processes and business practices, these systems enables organizational leaders to transform abstract broad strategies into visible (quantifiable and measurable) individual tasks which are communicable even to the lowest operational levels (see also Busco et al., 2002, p.37).

Albeit briefly, this article has drawn managers, employees, consultants and other decision makers to the role which accounting plays in organizations and its potential role as a facilitator of organizational change such as M&A and successful implementation of organizational strategies.

1 This is to remove “non-congruent understanding of problems at hand”, see Noerreklit and Schoenfeld, 2000, p.418).
2 The discussion of their model and how it should be implemented and used are venues for further research.
References


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**Biographies**

Hassan Yazdifar (PhD, MA, MRS, BA) is a lecturer in accounting at Sheffield University Management School. Prior to joining Sheffield in 2001, he has taught at several universities in the UK (i.e., the universities of Manchester and UMIST) and also overseas. He has facilitated several seminars (e.g., ISS 2000 and ISS 2001). Hassan has taught on a wide range of undergraduate and postgraduate courses. He is currently module leader for one of the compulsory accounting modules on the full-time postgraduate course (Leisure Management Programme), one MBA module and a joint leader of an undergraduate. In addition he is a member of Information Strategy Committee of the School.

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Figure 1. Intra-organizational Model of Thinking

Adopted: Noerreklit and Schoenfeld, 2000, p.423.

Figure 2. Developing an Inter-organizational Model of Thinking

Adopted: Noerreklit and Schoenfeld, 2000, p.423.