

VersaCold:

Analysis of Change Management in Mergers & Acquisitions



By

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ABSTRACT

Many firms use mergers and acquisitions as a corporate strategy to increase shareholder value. Therefore, understanding such a widely exercised strategy and its implications on corporate change would be critical for organizations that wish to pursue this strategy. This study provides an in depth review of mergers and acquisitions and introduces best practices for managing changes that result from mergers and acquisitions. Next, the concepts are applied to two cases of acquisitions in VersaCold, a major provider of refrigerated warehousing and distribution services in Canada. Strengths and weaknesses in each case are assessed and recommendations are produced for VersaCold's future mergers and acquisitions.

Keywords: Change Management, Mergers and Acquisitions, Public Refrigerated Warehousing (PWR)

EXECUTIVE SUMMARY

VersaCold, a refrigerated warehousing and distribution company, has grown organically and through acquisitions since it was first established in 1946 as BC Ice and Cold Storage Company. This paper analyses two cases of VersaCold's acquisitions: acquisition of Geneva Lakes Cold Storage/Wisconsin Logistics in 2003 and acquisition of P&O Cold Logistics in 2005. The focus of the analysis is on managing the changes that resulted from these acquisitions.

Three change management frameworks are utilized to assess the effectiveness of change management in each case. These frameworks are Kurt Lewin's model, the ADKAR model and the ExperiencePoint's model explained in section 3.3. Both case studies received high scores under each model which indicate they were managed very well. Two similar aspects are identified as the contributors to the success of change management for these cases: First, a strong communication program throughout the change. Second, a similar decentralized culture between VersaCold and the acquired companies. The analysis shows that both cases received the lowest scores in the areas of creating the desire for change and motivating staff. To improve these areas, section 6 of this paper offers several recommendations on various monetary and non-monetary incentive tools.

DEDICATION

I would like to dedicate this study to my dear husband, Nima Boostani, for all his love and encouragement throughout the course of my MBA studies. I am deeply grateful for his support, guidance, and patience.

I would also like to express my deepest gratitude to my mother, Dr. Mahboobeh Khalesi, and my late father, Dr. Hossein Eslami. They showed me the value of education and taught me anything is possible with perseverance.

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Glossary

CAGR	Compound Annual Growth Rate
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
M&A	Mergers and Acquisitions
POCL	P&O Cold Logistic
PRW	Public Refrigerated Warehouse
P&O	Peninsular and Oriental Steam Navigation Company

1. Introduction to Mergers and Acquisitions

Many firms use mergers and acquisitions as a corporate strategy to gain competitive advantage, synergies and, thus, increase shareholder value. Recent news on Microsoft acquiring Skype, and Texas Instruments acquiring National Semiconductors are a few examples that substantiate this view. In this chapter, a thorough review of the types and historical trends of M&As is provided. Financing options to support M&A are also reviewed.

1.1 What are M&A?

Consolidation of two or more companies is achieved through a merger or acquisition. Although the terms merger and acquisition are often used together they have different meanings. Acquisition occurs when one company purchases another company. The buyer absorbs the target and inserts control over its operation. As a result, the buyer's stocks continue to be traded while the stocks of the target company cease to exist. A merger, however, refers to amalgamation of two similarly sized companies. The merging companies decide to join forces and operate as a new single company rather than being separately run. This is sometimes referred to as merger of the equals. New stocks are issued which replace the stocks of the merging firms.

In reality, true merger of equals seldom occur. The distribution of assets and power is rarely equal among the companies. Consequently an acquirer and acquiree emerge. Although the majority of transactions are technically acquisitions in which one company buys another company, it is common to see acquisitions being announced as mergers. The reason lies in the psychological effects created by acquisitions: Acquisitions may trigger negative mental associations in the minds of the employees of acquired firms. Employees generally dislike the feeling of being bought out. The executives of the acquired firm, in particular, don't favor the term since the acquisition makes them in effect 'middle managers'. Occasionally, the impact is so strong that it impedes the progress of negotiation and reaching a deal. An example is Lucent and Alcatel of France, two of the world's largest manufacturers of communication products. Merger talks were suspended on May 29, 2001 by Henry B. Schacht, chairman of Lucent, as the transaction started to get perceived as an acquisition versus a merger. (Hartley, 2011, p. 317). Therefore, to mediate such effects, acquisitions are sometimes framed and announced as mergers.

1.1.1 Private vs. Public

Mergers and acquisitions are categorized into private and public transactions depending on the status of the target firm prior to the transaction. If the target company is private, the transaction is private. Similarly, if the target company is public, the transaction is classified as public.

Acquisition is sometimes used as a means for private companies to become public. For private companies wishing to access public markets a traditional IPO is a costly and time consuming process. Private companies can bypass the IPO process by acquiring a shell of a public company in a transaction commonly referred to as reverse takeover or reverse merger.

1.1.2 Friendly vs. Hostile

In another context, M&As are classified into friendly and hostile transactions. Many M&As are friendly transactions in which the senior management of the two firms communicate and negotiate price along with other terms of the deal. If the target company is public, its shareholders are presented with the terms of the deal and their approval is obtained prior to closing the deal. For large transactions, shareholder approval of both companies may be required. (Gaughan, 2005, p. 4). In hostile deals, the target company is either unaware of the deal or in most cases unwilling to be bought out. There could be different reasons why target companies avoid being acquired. For instance, the board of directors or shareholders may feel that the deal would diminish the value of the company or expose it to danger of going out of business. Furthermore, management may prevent the deal due to self interest motives such as saving their own jobs. They might fear their positions would be eliminated or replaced in the organizational restructure that usually follows an acquisition.

When the target company is not participating in M&A negotiations, the hostile acquirer may pursue either a tender offer or a proxy approach to gain control of the target firm. A tender offer is a publicly advertised open offer to purchase a substantial portion of the target company's outstanding stocks at a predetermined price for a specific time frame, subject to shareholders tendering a fixed number of their shares in that time frame. To attract sellers, the predetermined offer price is usually at a significant premium over market price. The intent for the hostile

acquirer is to purchase enough shares so that it could have majority of voting shares and hence control over the target company. By reaching directly to shareholders, this process effectively bypasses directors and managers of the company. Jarrell (n.d.) argues that tender offers are the most powerful instrument for hostile bidders as the threat of a hostile tender offer, in itself, can often persuade reluctant target managers to come to the negotiation table. This threat is particularly credible when the bidder already owns a significant portion of the target's stocks and demonstrates financial capability to finance a hostile tender offer.

Alternatively, the hostile acquirer might choose to work rather in 'disguise'. The buyer or a team of buyers could gradually purchase enough shares to gain majority control over the target company. This tactic is referred to as a creeping tender offer and could be risky because once the target company suspects a hostile takeover it can take steps to prevent it by creating a poison pill or other measures.

One doesn't need to buy a majority of shares to have control over the target company. An alternate approach in a hostile takeover is to convince shareholders to vote for a new team of directors who would support the acquisition. The shareholders are asked to appoint the buyers in a 'proxy' as their representatives to vote. This is an effective method and has gained popularity in recent years because it circumvents the various defense mechanisms that companies implement to prevent purchase of a controlling interest.

1.1.3 Financing Alternatives

There are three widely used arrangements to finance a merger & acquisition: cash, stocks or a combination of both. In cash based transactions, as the name implies, the only consideration is cash; shares of the target company are traded for cash. In stock based transactions, the shares of the target company are exchanged with a certain number of the shares of the bidding company. The bidding company generally issues new shares to finance the transaction; however, occasionally it may combine its own shares with third party shares in an offer package. The third common method is a combination of cash and stock. Having a portion of the compensation as stocks is particularly beneficial when the buyer intends to keep the seller engaged and motivated towards the success of the combined companies. There are other financing alternatives such as debt securities or preferred shares that are less frequently used.

Which method to use depends on a variety of micro and macroeconomic considerations and deal structures. Cash position, access to credit, risks and costs associated with obtaining credit play important roles in the ability of the acquirer to finance a cash transaction. Similarly, the company needs to assess the dilutive effect of issuing stocks and the impact on its earnings per share (EPS) before engaging in a stock based transaction. Another major consideration is the different tax consequences of each method. Ultimately, on one hand, the buyer has to analyze its own financial status and on the other hand the financial status of the combined companies to determine optimal debt vs. equity financing structure.

1.2 Merger/Acquisition Types

From an economic perspective, mergers may be classified as horizontal, vertical, and conglomerate (DePamphilis, 2010, p.19). The classification depends on whether the merging firms operate in the same or different industries and also on their relative positions in the value chain. Value chain refers to a series of value generating activities. Figure 1-1 shows five generic value generating steps that are common to a wide range of firm (Porter, 1985).

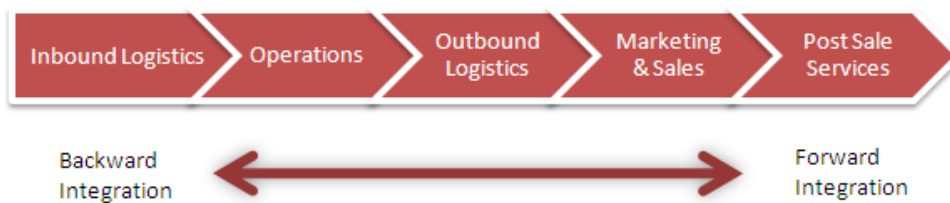


Figure 1-1: Value Chain (Porter,1985)

1.2.1 Horizontal Mergers

Horizontal mergers refer to the combination of two firms in the same industry. The products or services of the firms are either identical or similar in nature. An example would be the takeover of a car manufacturing company by another car manufacturing company.

One reason a horizontal merger is pursued is to increase market share and eliminate competition. Horizontal mergers can sometimes result in the creation of monopolies. With a large market share, the company can increase the price of its products and services which could unduly

affect the consumers. As such, some of the larger horizontal mergers are perceived as anticompetitive and are blocked by governments.

Another reason for horizontal mergers is to achieve economies of scale which lowers the production cost per unit for the combined firms (Geddes 2006, p. 104). Cost savings result from a few sources: First, by combining purchases of both firms, the new firm can take advantage of reduced purchasing prices for higher volumes. Second, the firm can enjoy cost savings in certain areas such as advertising because the same TV or radio ad can now promote both firms. Third, duplicate functions and roles can be eliminated to achieve synergies. For instance, back office functions such as accounting, payroll, tax, and IT can be consolidated to serve both firms.

1.2.2 Vertical Mergers

From a value chain perspective, a firm might not own operations in each segment of the value chain and may choose to acquire such segments in what is called a vertical merger. There are two types of vertical mergers: forward merger and backward merger. In a forward merger, the firm purchases one of its downstream value segments such as sales distribution channel and brings the company closer to the end consumer. For instance, Boise Cascade, a paper manufacturing company, acquired office products distributor, Office Max, in 2003 for \$1.1 billion (DePamphilis, 2010, p.19). In a backward merger, the firm buys one of its upstream value segments, usually a supplier, and brings the company closer to the source of supply. For instance, Tata Motors, India's largest automobile company purchased an 80% stake in Trilix Srl., Turin (Italy), a design and engineering company, in 2010 for €1.85 million. ("Tata Motors acquires...", 2010).

Vertical mergers have several advantages. One advantage is increased entry barriers for potential competitors especially if the incumbent firm can gain exclusive access to a scarce resource or distribution channel. Another advantage is improved coordination of supply chain and reduced costs in certain areas such as transportation if the merged companies become geographically close. Additionally, a vertical merger enables the acquiring firm to access the technologies of the acquiree. This would facilitate investments in complementary specialized assets that could generate competitive advantage (Teece, 1986).

Vertical mergers pose some disadvantages as well. Hill and Jones (2010, p. 298) argue that profits of a vertical merger could be diminished due to three factors. First, company-owned

suppliers might become inefficient over time especially if the company continues to buy material from its own suppliers while third party suppliers can provide the same material at a lower cost. Second, in times of rapid technological change, a vertical integration might lock the firm into an old, inefficient technology which would erode its competitive advantage over time. Third, in cases where the demand for the company's core products is unpredictable, scheduling production and managing supplies volume throughout the value change become challenging. This would result in either shortage or surplus of inventory which are both costly. Another disadvantage of the vertical integration is that the firm could get distracted from its core competencies. Imagine a manufacturing firm that has acquired a retail distribution chain. Since operating a retail business is very different from a manufacturing business, a different set of core competencies would be needed. A shift to learn new competencies could be time consuming and could also take away the attention from the core competencies.

1.2.3 Conglomerate Mergers

Conglomerate mergers refer to the combination of two or more businesses in largely unrelated industries. One example is the acquisition of Marathon Oil by U.S. Steel in the mid-1980s. Advocates of conglomerate mergers argue that mergers across different industries allow for investment diversification and thus sharing of risk. They also provide income smoothing and grant protection against seasonality and other business cycles. Another benefit, similar to horizontal mergers, is potential savings in shared back office services such as accounting, payroll, tax, IT, etc.

Despite their popularities in the 1960s and 1970s, conglomerate mergers have since lost their appeal. Many people believe that conglomerate mergers destroy shareholder value. Servaes (1996, p.1) argues that, even during the 1960s and 1970s, diversified conglomerates were valued at a discount compared to single-segment firms. The discount, however, was reduced to zero in the 1970s.

1.3 Trends

The last century has seen five merger waves. Geddes (2006, p. 106) identifies the first three as a US phenomena while the other two had a global reach. A merger wave refers to a period of a high number of mergers followed by a period of relatively few deals.

1.3.1 Merger Wave 1: 1897- 1904

The first merger wave occurred in 1897 to 1904, with its peak in 1899 (Table 1-1). Following the depression of 1883, this wave affected major mining and manufacturing sectors in the United States. Eight industries that were most affected by this wave are Primary metals, Food products, Petroleum products, Chemicals, Transportation Equipment, Fabricated metal products, Machinery and Bituminous coal (Gaughan, 2005, p.30). The majority of the mergers in this period were of the horizontal type (Table 1-2), which resulted in industry consolidation and the creation of large monopolies. Some of today's large industrial companies originated from this first merger wave. Some examples include U.S. Steel, DuPont, Standard Oil and General Electric.

Table 1-1: Number of Mergers - First Merger Wave (Gaughan, 2005, p.31)

Year	Number of Mergers
1897	69
1898	303
1899	1208
1900	340
1901	423
1902	379
1903	142
1904	79

Table 1-2: Percentage of Merger Types- First Merger Wave (Gaughan, 2005, p.31)

Type of Merger	Percentage(%)
Horizontal	78.3
Vertical	12.0
Horizontal & Vertical	9.7
Total	100

1.3.2 Merger Wave 2: 1916 - 1929

The second merger wave occurred in the period of 1916 to 1929. Several industries consolidated in this period but the result was often oligopolistic structures in contrast to monopolies created in the first merger wave. This was due to the laws passed to prevent monopolies.

Following the first merger wave, concerns over monopoly power and market abuse heightened. The Sherman Act of 1890, passed to limit cartels and monopolies, was proved ineffective in preventing monopolies. As a result, the Clayton Act was passed in 1914 to supplement antimonopoly provisions of the Sherman Act. The Clayton act outlined specific illegal practices, the three-level enforcement system, the exemptions, and the remedial measures. Gaughan (2005, p.37) argues that the more stringent antitrust environment resulted in oligopoly structures as well as a large number of vertical mergers. In addition, companies from unrelated industries merged to create the first large-scale conglomerates.

In the period from 1926 to 1930, a total of 4600 mergers occurred. A large portion of these transactions took place in five industries: Primary Metals, Petroleum products, Food products, Chemicals and Transportation equipment (Gaughan, 2005, P. 38). This merger wave was ended by the Wall Street stock market crash of 1929.

1.3.3 Merger Wave 3: 1965 – 1969

The third merger wave occurred from 1965 to 1969. The booming economy triggered a large increase in the number of mergers in this period (Table 1-3). Many conglomerates were formed across unrelated industries. Some examples of such conglomerates were Ling-Temco-Vought (LTV), Litton Industries and ITT.

The antitrust environment was stricter in this period. In addition to Sherman and Clayton Acts, a new piece of legislation (Celler-Kefauver Act passed in 1950) strengthened antitrust enforcement. This resulted in a reduced number of horizontal mergers relative to the first two merger waves.

Table 1-3: Number of Mergers - Third Merger Wave (Gaughan, 2005, p.40)

Year	Number of Mergers
1963	1361
1964	1950
1965	2125
1966	2377
1967	2975
1968	4462
1969	6107
1970	5152

1.3.4 Merger Wave 4: 1984 - 1989

The fourth merger wave occurred from 1984 to 1989, coinciding with a period of economic prosperity. Debt was more aggressively used to finance mergers. Larger deals in the billion-dollar range emerged in this period, and the term leveraged buyout (LBO) became commonplace in Wall Street. Leveraged buyouts allowed smaller companies to bid for relatively larger targets. They were also used to take public companies private.

An interesting characteristic of the fourth merger wave was the emergence of ‘corporate raids’. A corporate raid is a type of hostile takeover in which the assets of the acquired company are sold off soon after the transaction as a means of generating profits for the buyer. Also referred to as breaking a company, this process effectively dismantles the target company and disposes its valuable land, buildings, equipment and any other assets that can be converted to cash. In some cases a shell of the company may be kept so the business can continue to operate on a smaller scale.

1.3.5 Merger Wave 5: 1992 – 2000

The fifth merger wave occurred from 1992 to 2000 following the economic recession of 1990. The period saw large merger deals similar in size to those of the fourth merger wave. The number of transactions was also similar to that of the fourth wave. By this time, many of the highly leveraged buyouts of the fourth wave were in bankruptcy. Having learned their lessons, managers took a more conservative approach in acquisitions and, thus, highly debt-financed

mergers were less common in the fifth wave. The focus of acquisitions shifted from short-term financial gains to long-term business strategies. One such long term strategy was to gain size and ‘critical mass’ which was followed by companies in varied industries such as banking, pharmaceuticals, telecommunication, oil, and gas (Geddes, 2006, p. 107).

It is important to note the effect of deregulation as a source of industry shock in this merger wave. A significant number of deregulations occurred in industries such as financial services, health care, utilities, media, and telecommunication. Andrade et al (2001) call 1990s the “decade of deregulation”. The authors suggest that deregulation was the dominant factor in mergers and acquisitions after the late 1980s and accounted for nearly half of the merger activity since then until 2001.

Another theory was also used to explain the fifth merger wave. Shleifer & Vishney (2003) suggest that merger transactions are driven by the stock market valuation of the merging firms. The theory assumes that financial markets are inefficient. This results in some stocks to be overvalued. On the other hand, managers are assumed to be completely rational and capable of identifying misvalued firms. The theory suggests that the fifth merger wave occurred as the managers of overvalued firms acquired less overvalued firms.

1.3.6 Merger Wave 6: 2003 – 2007

The sixth merger wave started in 2003, climaxed in 2006 with more than \$1 trillion spent in U.S mergers, and finished in 2007. Alexandridis et al. (2010) propose a few key differences between this merger wave and the fifth merger wave. First, cash and debt financing was used more in this merger wave. This is due to the abundance of liquidity and access to low cost capital as US corporate loan prime rates was lower in this period. Second, the strength of acquirers’ stock prices was more closely related to sound fundamentals rather than over-optimistic expectations. As such, the acquirers were less overvalued compared to the 1990s resulting in a less variance between acquirer and target ‘overvaluation’ compared to the fifth merger wave. Thus, change in overvaluation was not considered as a motivation for mergers of the sixth wave. Third, there was less overpayment seen compared to the fifth wave. This was associated with less management hubris, reduced competition to gain corporate control, and more realistic valuation of target firms.

The wave ended approximately in 2007 coinciding with the start of the financial crisis leading to an economic recession. During the recession, financial institutions limited their credit extension to firms. As a result, liquidity and financing available to firms reduced which in turn hampered the ability of businesses to pursue mergers and acquisitions in general. However, since recession's end in mid 2009, the credit markets have improved.

Based on the historical M&A waves, it is anticipated that such trends will continue in the future. To take advantage of windows of opportunities, it is important for firms to keep abreast of these trends. One way this can be achieved is through monitoring economic upturns and downturns which generally coincide with increases and declines in the rates of M&As.

2. Motivations behind M&A

Mergers and acquisitions are pursued for a variety of reasons. One of the most important reasons is to establish positive changes that maximize shareholder value through achieving synergies. The concept of ‘synergy’ was first introduced in 1962 by Igor Ansoff, known as the father of strategic management, who used his famous “ $2+2=5$ ” analogy to convey the message that combined firms might have the potential to generate greater shareholder value compared to the sum of individual firms.

Establishing positive change and, thus, maximizing shareholder value is a common motivation for mergers and acquisitions. However, there are some other motivations that do not necessarily align with the goal of maximizing shareholder value. This section lists many of the common motivations for M&As and discusses whether or not they are aligned with the goal of maximizing shareholder value.

2.1 Operational Synergy

Many mergers are pursued in order to achieve operational synergies. There are two general sources of operational synergies both focusing on increasing efficiencies, and thus reducing average cost per unit of production. These sources stem from economies of scale and economies of scope.

Economies of scale are best understood as cost advantages due to spreading fixed costs over increasing production units. In economic terms, fixed costs are those that do not change when output volume changes. Whether the company produces 100 or 10,000 units, it still incurs the same amount of fixed costs. By increasing output levels, the fixed cost is divided over a larger number of products and as such average cost per unit of production is lowered. Economies of scale do not continue to exist as the output level is increased beyond a certain level. As shown in Figure 2-1, the relationship between long-run average cost and output level is represented by a U shaped curve. While initially, the expansion of output allows the company to enjoy production at a lower long-run average cost, after a certain point, Q^* , an increase in output actually causes an increase in production costs. This condition is known as diseconomies of scale. Synergies are achieved if the merger allows the firm to increase output to a maximum of Q^* .

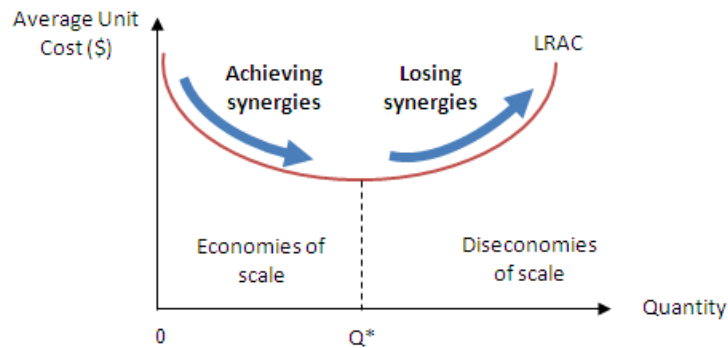


Figure 2-1: Synergies and Economies of Scale (Baye, 2009, p.187)

Economies of scale can be exploited in several areas of the business. In production, the same equipment or facility may be used to produce larger number of output. As a result, costs such as building rent, equipment lease, depreciation of capital assets, and insurance can be split over larger number of produced units. In purchasing, a larger purchase volume provides the purchasing agent with more power over suppliers to negotiate reduced pricing. In business development, the costs for advertising and promotional activities can be spread over a larger scale. Similarly, in administration, various overhead costs are divided over a large number of units.

Economies of scale can be a significant source of increasing shareholder value for merged companies. When implemented and managed properly, cost savings in different areas of the business can be realized. Another manner in which economies of scale contribute to shareholder value is through increasing entry barriers as it would be very difficult or costly for new entrants to establish similar efficiencies. This leads to reduced entries that in turn result in less intense competition. Lower competition translates into higher margins generating higher returns for shareholders.

Economies of scope are defined as cost advantages in utilizing the firm's assets or skills to produce new additional related products or services. Typically, economies of scope are realized when it is cheaper to combine two or more product lines in one company than to produce them in separate companies (DePamphilis, 2010, p.7). For instance, Honda uses its skills in developing internal combustion engines to produce several lines of products such as automobiles, motorcycles, lawn mowers, and snow blowers.

When companies merge, they have an opportunity to combine their skills, technologies and equipment towards creating new related products that they were not able to produce previously. This results in a more efficient use of common factors of production which leads to economies of scope which in turn increases shareholder value.

2.2 Financial Synergy

A merger and acquisition may be pursued to achieve financial synergies. Financial synergies result from the reduction in cost of capital for the merged firms, access to high growth investment opportunities, and tax benefits. All of these factors positively contribute to shareholder value.

Large firms whose growths are slowing in matured markets or industries may be cash rich and produce excess cash flows well in excess of investment opportunities. These firms generally have good credit ratings and have the ability to raise capital in the financial markets with favorable rates. In contrast, smaller firms in high-growth industries have far more opportunities for investment but may not have the capital to support investments. Obtaining capital for these companies is not always possible due to higher business/industry risks and perhaps their inability to demonstrate a high enough internally generated cash flow. Even if they succeed in securing capital, it is most probably at a higher interest rate compared to established low risk firms. Combining these firms could result in a lower cost of capital for the merged firms.

Tax savings could be a major financial synergy pursued by some acquirers. A firm might have tax shields in the form of unused carry forward losses or tax credits that is not able to use. Merging with such firms allows profit making firms to use the tax shield against profits. Auerbach (1987, p.81) suggest that potential transfer of unused tax credits and tax losses was the most significant tax-related factor in mergers of 1970s and early 1980s. Although regulations have been introduced to limit the ability of firms to engage in mergers with the sole intention of achieving tax benefits, companies still consider tax consequences as a major factor in analyzing the attractiveness of a merger.

2.3 Strategic realignment

Further generating motivation for mergers and acquisitions is strategic realignment. The theory of strategic realignment suggests that M&As can be used by firms to rapidly adjust to

changes in their external environment (DePamphilis, 2010, p.9). Two strong external changes are changes in regulatory environment and technological innovations. These changes are so profound that can create major shifts in an industry and even destroy previous lines of business. Some firms choose to merge in order to quickly take advantage of new opportunities and to respond to the threat of becoming obsolete by new technologies. Strategic realignment, whether due to changes in regulatory environment or technologies, provides opportunities to increase shareholder value.

Changes in regulatory environment influence merger activity and industry transformation. Although some changes such as introduction of antitrust legislation hindered mergers that were believed to be anticompetitive, other changes such as vast deregulations in the 1990s provided opportunities for strategic mergers and acquisitions. Deregulation acts as a catalyst for industry transformation by removing barrier to entry to industries that were previously exclusive. When barrier to entry is removed competition increases and the stage is open for strategic mergers and acquisitions. A few examples are provided to illustrate how deregulation spurred merger activity; since the great depression, banks, securities firms and insurance companies were prevented from merging. The Financial Services Modernization Act of 1999 repealed the legislation and proliferated merger activity towards creation of huge financial services firms. Another example is in telecommunication industry. Historically, regulation prevented local and long-distance phone companies to compete with each other. In 1996 this barrier was removed by the passage of Telecommunication Reform Act.

In addition to regulatory environment changes, technological changes also ignite merger activity. Technological innovations have the potential to radically change the industry by creating new and unexpected products and markets. These innovations are typically found in smaller and more dynamic firms that can quickly adjust to the needs of the market. Large and bureaucratic companies lack the speed and creativity of smaller companies to innovate. In order to cope with rapid technological changes, large firms choose to acquire the smaller firms to get access to their technology. This can help establish a competitive advantage and also defend against the threat of obsolescence. Another strategic advantage of acquiring new key technologies is to keep them out of competitors' hands.

2.4 Diversification

Another motivation for mergers and acquisitions is to diversify beyond the firm's current primary line of business. Diversification is categorized into related and unrelated diversification. In a related diversification, a firm either sells new products to its existing market or sells existing products to new markets. In either case, the firm has prior familiarity with either the product or the market. For example, a local soup manufacturing firm may diversify into pastry manufacturing. In this case the product is new but the market is the same. Now consider the same soup manufacturing company decides to export its products to the US market. In this example, the product is the same, but the market is different. In contrast, in an unrelated diversification both the product and the market are new to the firm. For instance, Virgin brand is diversified into unrelated industries such as airline, retail, entertainment, communication and hospitality. Unrelated diversification is an inherently riskier strategy because the firm has little or no experience with the product or market.

It is interesting to explore why firms use merger and acquisition to diversify. One reason is to take advantage of the financial synergies that result in reduced cost of capital. Another reason is to move from a saturated business to a business with higher growth prospects. In an unrelated diversification, however, none of these reasons seem to create shareholder value. In fact, empirical research shows that unrelated diversification generally destroys shareholder value (Lamont and Polg, 2000). Share prices of conglomerate firms typically trade at a discount compared to share prices of focused firms. There are a few factors contributing to the decline in shareholder value. First, investors find conglomerate firms to be riskier because they perceive the managing of such companies to be more difficult as the operation is spread across unrelated industries. Second, investors find it difficult to value various segments of a conglomerate firm. Third, expected financial synergies are not realized because many diversified firms fail to allocate capital efficiently among different segments.

2.5 Hubris (Managerial Pride)

Sometimes mergers are pursued due to management hubris. Hubris is extreme pride or arrogance in one's capabilities such that reality is overlooked. It is combined with overconfidence in one's assertions. Management hubris can harm shareholder value in a variety of cases. Sometimes managers neglect the market's valuation of a target firm and believe that a target firm

should be valued higher. Overconfidence in their estimates drives managers to overpay to acquire the target. This situation is exacerbated when there is a competition between bidders. The urge to win can result in a bidding war that pushes the purchase price well over the true valuation. In other cases, management may overestimate the synergies that can result from mergers. Managers who are overconfident in their abilities to create and take advantage of the synergies are enticed to bid higher than the target's true valuation.

2.6 Buying undervalued assets

Purchasing undervalued assets is another motivation for some mergers and acquisitions. Sometimes the stock valuation of a target firm is lower than the replacement costs of its assets. This could be caused by high inflation rate or interest rates which result in the replacement costs to be higher than the target firm's book value of assets. A firm that wishes to expand its operations could acquire such a firm instead of investing in building new plant and equipment. DePamphilis (2011, p. 11) notes that buying undervalued assets was a common motivation in the mergers of the 1970s when high inflation and interest rates caused the stock prices to be lower than the book value of many firms. For a more recent example, DePamphilis (2011, p. 11) points out the acquisition of Premcor Inc by Valero Energy Corp for \$8 billion in 2005 which created North America's largest gasoline refinery. It was estimated that it would cost Valerco 40 percent more to build a new refinery with the capacity equivalent to that of Premcor.

Buying undervalued assets definitely contributes to shareholder value. However, the acquirer must ensure that the assets of the target firm are indeed undervalued and the decision is not influenced by management hubris.

2.7 Managerialism

Some mergers and acquisitions are pursued to satisfy management's self interest. These interests can be classified into two categories: First, managers may want to increase their influence and prestige by building large empires. Second, they might pursue higher compensations by linking their compensation to the size of the firms they manage. These motivations are unlikely to create value for the combined organization and, thus, shareholders do not benefit from these mergers and acquisitions.

2.8 Market Share

Increasing market share is another motivation for mergers and acquisitions. A larger market share provides a company with potentially more profits and could positively contribute to shareholder value. One of the benefits of a larger market share is the possibility of economies of scale that the combined firms could enjoy. Another benefit is the perception that it creates among customers; when a company has a large market share, it is perceived to be more successful. This perception could result in a stronger reputation for the company which in turn could attract more customers and contribute to more market share. Another benefit of a large market share is the increased number of customers. This would reduce the risk of reliance on a few customers.

Sometimes, the motivation for M&A is more ambitious than just an increase in the market share and is driven by a desire to move towards monopoly power. By increasing the monopoly power, companies would be able to set sustainable prices at a higher level compared to a competitive market. Higher prices could increase revenue if the demand for product or service is inelastic (Baye, 2009, p.78).

2.9 Geographical Expansion

Another motivation for mergers and acquisitions is to expand a company's operations beyond its geographical boundaries. This is typically pursued in horizontal mergers and acquisitions. The acquiring companies generally search for targets that have a strong local connection, customer base and reputation. Geographical expansion typically results in increased market share. As explained in section 2.8, increased market share positively contributes to shareholder value.

3. Change Management

To achieve desired synergies, merged firms need to go through some changes. Because it is employees that allow the organizations to realize their change objectives, it is critical to effectively manage employees through change. Mergers and acquisitions can be threatening for some employees and create strong anxiety and stress. Schweiger and Ivancevich (1985) identify some common merger stressors as uncertainty, insecurity, fears of job loss, job changes, compensation changes, and changes in power, status, and prestige. Mergers and acquisitions are stressful for employees because they have the potential to significantly change employees' working lives yet fail to provide them with any control over the event. Hunsaker and Coombs (1988, p.58) discovered distinct phases of emotional reactions experienced by employees during a merger or acquisition. These emotional patterns are labeled as "Merger Emotion Syndrome". It is critical to recognize these emotional patterns and effectively manage employees through the stages in order to turn employees into productive forces. Effective change management enables employees to embrace the new direction of the merged firms and positively contribute towards achieving desired synergies.

This chapter starts with a study of various phases of merger emotion syndrome. Next, principles of change management are introduced. Following an understanding of change management concepts, different frameworks for change management are explored.

3.1 Changes in Employee Emotions – "Merger Emotion Syndrome"

During a merger or acquisition, many employees go through a sequential phases of feelings. Hunsaker and Coombs (1988, p.58) identified a 9-stage transition model for employee feelings in the midst of merger and acquisition. These stages are denial, fear, anger, sadness, acceptance, relief, interest, liking and enjoyment. As demonstrated in Figure 3-1, the first four phases represent a downswing in employee emotions which is followed by a neutral acceptance mode. After the neutral phase is passed, positive emotions start to develop.

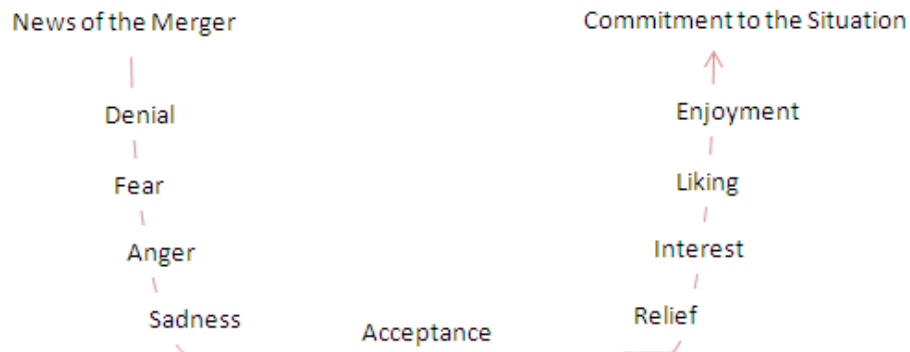


Figure 3-1: Stages in the Merger Emotions Syndrome (Hunsaker & Coombs 1988, p.60)

This section describes each phase of the merger emotion syndrome and provides examples where applicable. It is important for management to understand and recognize each phase so that they can properly manage employees through the phases.

Denial:

Initially, many employees react to the news of the merger or acquisition with denial. They perceive it to be just a rumor. Many would pretend that the news has not been given and effectively shut their eyes to any evidence that suggests to the contrary. They feel that the merger will not actually happen or that it will not cause any changes to their work and organization.

Fear:

After the initial denial stage, as the merger or acquisition becomes a reality, employees start to develop fears of the unknown and imagine worst case scenarios. Rumors of mass layoffs and terminations spread throughout the organization. Uncertainties lead to stress and anxiety regarding fear of job loss, job changes, compensation changes, and changes in power, status, and prestige. This typically results in declined employee engagement and productivity.

Anger:

At this stage, employees have fully realized that the merger or acquisition is a reality and that they are unable to prevent it from taking place. Since they don't have any control over the situation, they feel angry towards the people who are responsible for it; anger is typically targeted

at senior management. Another characteristic of this phase is that employees feel management has betrayed them by selling them out. This feeling is usually strong among the employees of the acquired firm. They may feel that they have been sold out after being loyal to the company for several years and providing it with quality work.

Sadness:

Once the employees pass through the anger phase, the feelings of sadness emerge. Employees show signs of grievance over the loss of corporate identity and culture. The idea of changing good old norms and processes is especially unpleasant to them. It is in this stage that employees start to concentrate on the differences between the two firms and criticize the processes of the other firm. A mindset of ‘we’ versus ‘they’ develops in this stage.

Acceptance:

Following a sufficient period of grievance, employees realize that regardless of whether they liked it or not, the merger or acquisition occurred and it would be useless for them to resist the situation. At this point, employees begin to accept the merger or acquisition and try to find something positive about it. Anderson (1999, p.2) suggests that while employees may become behaviorally compliant in this stage they are not necessarily committed to the organization.

Relief:

Once employees make the transition through the acceptance phase, most begin to feel more settled in the new organization. As more contact is developed between the employees of both firms, they become more accustomed to working together. It is at this stage that employees start to feel relieved and recognize that the situation is not as bad as they had envisioned. They begin to feel that the new employees are actually better than what they had predicted and, thus, the mindset of ‘we’ versus ‘they’ begins to diminish.

Interest:

Once employees feel relieved and become settled in their new positions, previous feelings of stress and anxiety start to disappear. Employees become interested in the new organizations and find positive elements in it. They realize the new entity provides benefits and opportunities.

Consequently, they start to look at it as a challenge in which they strive to prove their capabilities and worth.

Liking:

By this stage a positive momentum has started. It is energizing for employees to discover new opportunities that they had not envisioned before. As they get more comfortable with their roles and the organization, many employees begin to actually like their new situations.

Enjoyment:

The final stage of merger emotion syndrome is enjoyment. In this phase, some employees have become fully comfortable with their new role and organization. They see that the new process is working out well and as such there are no fears of insecurity and uncertainty. Once employees reach this stage, the commitment level increases and employees become more and more engaged.

3.2 Change Management Principles

Change management is a systematic approach utilized to transition individuals, teams, and organizations from a current state to a desired state in the future. Formal change management includes a set of processes designed to encourage new attitudes and behaviors that align with the change objective. The goal of these processes is to minimize resistance to change and mobilize the staff towards achieving the firm's goals.

There are some fundamental steps that are common in most change management programs. First, in order to engage employees, management should convey the need for change. This need can originate from either internal or external environments. It could be in response to an immediate threat or perhaps a strategic decision that has long term impacts. Regardless of what the reason is, an effective change management program has to ensure that people understand why change is necessary and why it needs to happen at that time. Second, there should be a clear vision that demonstrates the direction and desired outcomes. A clearly articulated and communicated vision provides a focus for the firm and a rallying point for staff (Shepherson, 1994, p.5). Third, a consensus about what needs to change should be developed among influential members of the task force. These members will be instrumental in motivating staff and mobilizing commitment towards implementing change. Forth, the change needs to be managed

similar to a project. This will include all project management steps such as planning, implementing, monitoring, and adjusting. Many change management programs recommend assigning a dedicated project manager to lead the change through its various steps.

3.3 Frameworks and Processes

In this section, different frameworks for change management are introduced. These frameworks help firms to systematically approach a change initiative and provide different perspectives on necessary steps involved in each framework. Furthermore, the relationship between merger emotion syndrome and change management phases is explored when applicable.

3.3.1 Kurt Lewin's Model: Unfreeze, Change, Freeze

One of the simplest and most widely used frameworks for change management is Kurt Lewin's three stage model of Unfreeze, Change and Freeze proposed in 1947 ("Kurt Lewin Change Management model", 2011). Kurt Lewin was one of the first to research group dynamics and organizational development. He is recognized as the founder of social psychology for his work in this domain. Despite the simplicity of his three stage model, it can be applied to a variety of change management scenarios. Although much has changed since 1947, his model is still very relevant and is used as a foundation for many of the subsequent change management models.

Before explaining the three steps of Kurt Lewin's model, it is helpful to first describe Lewin's theory of Force Field Analysis. This theory states that human behavior is a dynamic balance of two categories of opposing forces: driving forces and restraining forces. Driving forces are those that promote change. In contrast, restraining forces are those that resist change. If these forces have equal power, equilibrium occurs. In an equilibrium state, the status quo is preserved and no change occurs as illustrated in Figure 3-2. For change to happen one must disturb the equilibrium by either strengthening the driving forces or weakening the restraining forces or a combination of both.

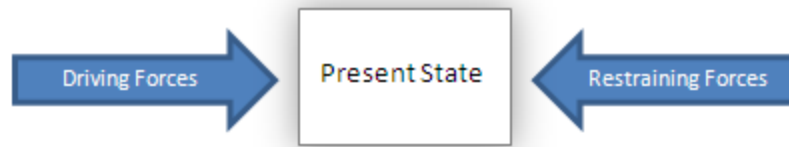


Figure 3-2: Driving & Restraining Forces in Equilibrium (Adopted from: "Force Field Analysis", n.d.)

The force field analysis integrates well with Lewin's three stage change management process. In the first stage, referred to as "unfreeze", the focus is on disturbing the existing equilibrium. To achieve this, the firms first need to identify both the driving forces and restraining forces, and then take measures to add driving forces that promote change or reduce restraining forces that favor the status quo or do a combination of both. To do so, the reasons for change have to be understood and effectively communicated to affected employees. A valid and understandable reason results in a stronger driving force and minimizes resistance to maintain the status quo. In addition to providing the reason for change, a desirable vision and goal needs to be created. The vision will motivate employees to change and, thus, boost the driving force. Another element that positively contributes to the unfreeze stage is to create a sense of urgency which speeds up this stage.

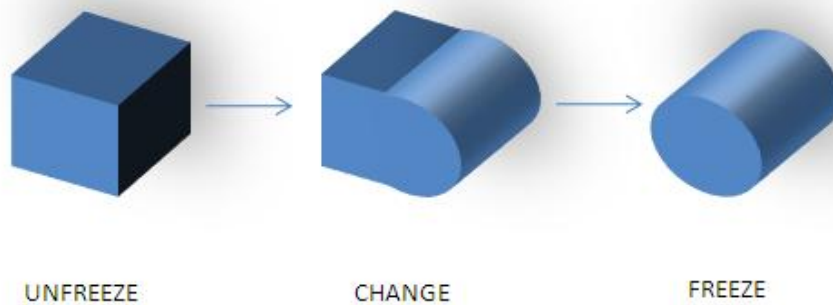


Figure 3-3: Kurt Lewin's Change Management Model (Adopted from: "Kurt Lewin Change Management Model", 2011)

The second stage of Lewin's model deals with the actual change. The change is viewed as a process rather than an event. This process involves changes in employees' thoughts, feelings, and behaviors as they go through the transition from old ways of doing things to new ways of doing things. During this stage, it is critical to support employees through the transition to reduce resistance. The support can take many forms. One important support is to provide employees with training and coaching to prepare them for new procedures. Restraining forces are diminished as employees get trained and become comfortable with the new ways. It is also important to recognize that a part of the restraining forces stem from employees' anxiety in regards to fear of making mistakes as they learn the new process. Understanding that mistakes are inevitable, developing a tolerance for mistakes, and supporting employees through the learning curve help reduce this restraining force. Another contributing factor in this stage is the use of role models. Role models add to the strength of the driving force by providing aspiration for change and demonstrating benefits of the change to other employees.

The third stage in Lewin's model is "freezing". This stage is focused on stabilizing post-change processes and freezing new attitudes and behaviors. These new processes, attitudes and behaviors will be the new norms accepted by employees. This is in effect a new equilibrium state in which the driving forces and restraining forces become balanced. Freezing the change at the new equilibrium create resistance to further change. This stage of the Lewin's model is criticized in terms of its applicability to modern environment in which firms need to go through more frequent changes compared to 1940s. More recent change management programs have modified this step to address this concern. While they recognize the need for reinforcement of the newly developed processes, these programs promote flexibility to respond to further change.

In the context of change management in a merger and acquisition, understanding the merger emotion syndrome plays a key role in implementing Lewin's model. As discussed, Lewin's model is based on identifying both the driving forces and restraining forces, and then taking measures to strengthen the driving forces or weaken the restraining forces or a combination of both. But how can one identify these forces? The response lies in the behaviors of the employees. These behaviors alert the observer to the presence of driving and restraining forces. For example, the first few steps of the merger emotion syndrome signal restraining forces due to denial, fear, anger and sadness. These forces can be minimized by taking measures such as providing reasoning for change, clear vision of the new direction, and supporting employees with training.

3.3.2 Prosci's Model: ADKAR®

Prosci is one of the world's leading firms in the area of change management. Founded in 1994, the firm has conducted extensive change management research on more than 2000 organizations from 65 countries, including 6 longitudinal studies. ("About Prosci", n.d.). The result of this research is a change management model called ADKAR® which has been widely adopted and become a best practice for firms and government agencies. According to Prosci's website more than half of the fortune 100 companies have used this model.

The ADKAR model is founded on two beliefs: First, it is people who allow the firms to change. Second, successful organizational change occurs only when individual employees are able to transition successfully. Therefore, the model focuses on actions necessary for successful individual change which will bring successful organizational change.

ADKAR is a sequential model with five building blocks as shown in Figure 3-4. The building blocks are Awareness, Desire, Knowledge, Ability and Reinforcement. For the model to be successful, each step has to be completed before the next step starts.

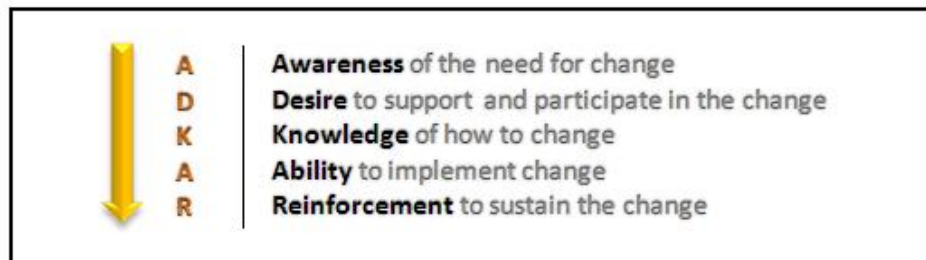


Figure 3-4: ADKAR Model of Change Management (Adopted from: "About Prosci", n.d.; "ADKAR: Simple, Powerful", 2011)

This section explains each building block of the ADKAR model:

1. Awareness – The first key aspect of this model is the understanding of the reasons for change. This step focuses on why change is necessary and explores the reasons and thoughts that underline a required change. Communication is the most critical element of this step. Appropriate communication channels need to be utilized to ensure that the

message has reached to every individual. When this step is successfully completed, every employee should know the reasons for change.

2. Desire – Once employees are fully aware of the reasons for change, they are ready for the next step which is to build desire to participate and support the change. Building desire is done through motivating employees and creating incentives that are aligned with the change. Once this step is successfully completed, each employee has reached a point where he/she has made a personal decision to support the change and contribute to it.
3. Knowledge – The third step of the model deals with providing employees with the necessary knowledge for the change. This is achieved through formal and informal training. Formal training involves educational mediums such as classes, seminars, workshops, and simulations. Informal training involves coaching, mentoring, forums and blogs. Regardless of the medium used, the goal of this step is to provide each employee with the knowledge on how to transition from current state to desired state and also how to perform in the new state once change is fully implemented.
4. Ability – The ADKAR model recognizes the difference between theory and practice. While the previous step provided the employees with the ‘theory’ or knowledge of how to change and how to perform in the new world, this step focuses on the ability of employees to actually perform. Providing support for employees is particularly critical in this stage. To achieve the desired level of performance, employees need to go through a cycle of practice, coaching and feedback.
5. Reinforcement – The last step of the model focuses on sustaining changes. The goal of this step is to ensure that changes remain in effect and employees do not return to old ways of doing things. Reinforcement is done through providing employees with positive feedback, rewarding desirable actions, recognizing accomplishments, measuring performance and taking corrective actions.

3.3.3 ExperiencePoint’s Model: 7 Steps to Change Management

ExperiencePoint, founded in 1996, is a firm specialized in providing powerful simulations for change management and innovation. Its model for change management, seven steps to change management, is an effective model that has been globally adopted by high profile

firms and organizations. Some examples of ExperiencePoint’s clients include the United Nations, GE, Nokia, SAP, Microsoft, Bayer, US Steel, the US Armed Forces, TD Canada Trust, CIBC, Astra Zeneca, and Habitat for Humanity. Clients also include leading business schools such as Kellogg, Duke, Rotman, Cambridge, Columbia, SFU, HEC, UNC, Michigan, etc. (“ExperiencePoint At a Glance”, n.d.)

ExperiencePoint’s seven steps to change management is a more comprehensive model compared to the Kurt-Lewin and ADKAR model. Both these models assume that a decision to change has already been made and, thus, the models only focus on a framework for implementing and managing change. In contrast, ExperiencePoint’s model guides organizations through both the decision making process and the implementation of change. As Figure 3-5 demonstrates, the model consists of two stages; the first stage focuses on aligning key stakeholders and includes three steps of Understand, Enlist, and Envisage. In this stage, the key stakeholders -usually senior executives- explore if or why a change is necessary, create a core change agent team and strategize on a vision and goal. It is at this stage that a decision to change is made. The second stage focuses on executing the change across the organization and includes four steps of Motivate, Communicate, Act and Consolidate.

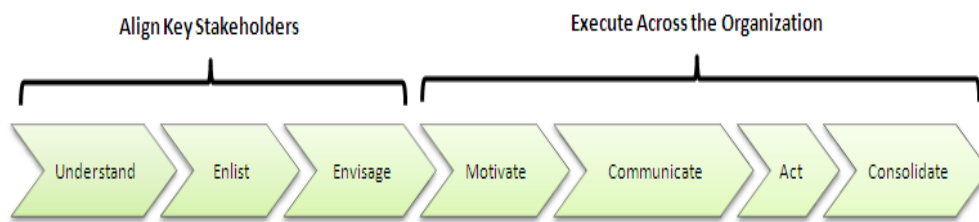


Figure 3-5: ExperiencePoint’s 7-step Model for Change management (Adopted from: “ExperiencePoint”, n.d.)

Understand:

A successful change management program starts with a thorough understanding of the needs for change. To gain an understanding of the need for change, both the external and internal environments should be continuously monitored and carefully studied. External environment scanning includes investigating market changes, new innovations, technological changes, and

competitor undertakings. On the other hand, internal environment analysis includes assessments of formal and informal elements. Formal elements are the company's systems, structures and processes while informal elements refer to organizational values, attitudes and beliefs.

Enlist:

Planning and implementing the change requires the input and cooperation of key stakeholders. Assembling an expert team of stakeholders plays a key role in successful planning and execution. Thus, once the need for change is fully understood, a team of change agents should be enlisted.

There are certain criteria that the core team should meet: Powerful position in the organization, Expertise, Credibility, Leadership and Management skills. With these qualities, the team will be able to create a vision, communicate with the staff, motivate and energize staff, plan and execute the change.

Envisage:

In this step, the vision and strategy are created and planned. Vision is a portrait of a desired end state of the change and strategy is the path to get there. Creating a strong vision is very important as it gives people hope and motivation for change. A strong vision should have the following characteristics: It needs to be a tangible and desirable picture of a pleasant future state. It should be simple enough to be explained in a few minutes. Additionally, it should be feasible and flexible. Also the vision should be focused on the basic fundamental challenges rather than marginal issues.

Strategy is a precise and detailed plan that includes everyday decisions. Different issues such as market and product definition, utilizing certain "systems, structures and processes" and competitive differentiation should be considered while creating the strategy. The process of creating the strategy needs to be participative, rigorous and open to new ideas and issues.

Motivate:

One of the challenges of implementing change is convincing people that their present situation -no matter how secure it may seem- is not the ideal situation for the business, and the consequences of maintaining the status quo could be severe. This will create a sense of urgency

that motivates change. Other tactics for creating this sense of urgency is sharing competitive and financial information, organizing site visits, town halls and behavioral interventions –seminars and workshops. ExperiencePoint asserts that a change will not be accepted and supported if more than 75 percent of people in an organization don't feel the urgency for change (ExperiencePoint, n.d.)

Communicate:

Before taking any action to change the systems, structures and processes of an organization, the vision should be communicated to the affected employees to give them a guiding path and framework. For better communication of the vision, it should be repeated frequently to help employees understand it and see its importance. Furthermore, the message should be consistent in all corporate communication and in different communication channels that broadcast the vision. Moreover, by creating job-specific communications that outline what changes and what remains unchanged, employees can better relate to the vision and help to achieve it.

Act:

In this step, the formal organization –systems, structures and processes- should be aligned with the new vision and strategy. To provide a definition for the elements of the formal organization, systems refer to organizational processes that support the day-to-day operations. Structures are the set of formal arrangements in an organization that define roles and relationships. Processes are the sets of sequenced activities that produce an output. Each of these elements should be adjusted to the new vision and strategy.

There are many systems in an organization that are influenced by a change of vision and strategy. The recruitment systems must attract and hire or retain the needed employees. The training systems should focus on competencies that support the new vision and strategy and the performance appraisal and reward systems should encourage and appreciate the new desired behavior.

New structures are often required for new visions and strategies. In order to align structures properly, filling key positions with the right people, shifting power between units and integration of some units should be considered. Important positions should ideally be filled with

known supporters. It is common to see an increase in resistance from some stakeholders as the power shifts in some units. Implementing integrative mechanisms, such as cross-functional project teams, promotes communication between the units and reduces this resistance.

Processes define how an output –products, services or information- is produced. Therefore, a change of vision and strategy results in a change of processes to attain the new goal. This change often involves the introduction of new technology. As a result, new technical training may be required.

Consolidate:

After executing the change, the workload demands rise considerably until a steady state is reached. During this period many employees become stressed and overwhelmed. To keep employees motivated and maintain the momentum of change, planning for quick wins and following the quick wins with new targets could be very effective. Celebrating the attainment of realistic short-term objectives is a good way to encourage employees, but this celebration should not be considered as the final victory until the entire organization is aligned with the new vision and strategy.

4. Overview of VersaCold's M&A Activity

Three models for change management have been presented. This paper uses these models to analyze two historical cases of M&A in VersaCold, a public refrigerated warehousing company. To provide context, section 4.1 provides an overview of the public refrigerated warehousing industry and section 4.2 provides an overview of VersaCold. Next, Versacold's M&A case studies are presented in section 4.3.

4.1 Industry Overview - Public Refrigerated Warehousing

Climate sensitive products require special provisions for transportation and warehousing in order to safely deliver perishable food stock to consumers. Addressing this need has led to the formation of the public refrigerated warehousing (PWR) industry. Today, services offered by the public refrigerated warehousing industry are used in retail, commodity and manufacturing industries including food and liquor, pharmaceuticals, and chemical businesses.

The North American refrigerated warehousing is comprised of several incumbents. Table 4-1 summarizes the names of the top 25 incumbents as well as the refrigerated space for each player. AmeriCold is the market leader in the industry holding approximately 35% market share, assuming refrigerated cubic feet is directly proportional to business revenues. 2010 industry revenues in the US totaled approximately \$5.9 billion ("Refrigerated Storage in the US", 2010). In addition, the US has the largest cold storage capacity in the world (Salin, 2010, p. 24).

The number of players in the North American market suggests that the structure of the industry is perhaps monopolistic. However, power of incumbents is not evenly distributed. The four firm concentration ratio is 0.6. This is based on the assumption that total refrigerated area in the market is represented by total refrigerated area of the top 25 incumbents and that refrigerated area is directly proportional to revenue. This ratio suggests that a few industry players dominate the market. Because the industry is dominated by a few players, the overall rivalry in the North American industry is assessed to be medium. However, rivalry in the refrigerated warehousing industry varies by region depending on the demand for refrigerated warehouses in certain localities to service consumers in the region.

Over the past, some consolidation has occurred – purchase of Versacold’s US and other non-Canadian divisions by AmeriCold in December 2010 is an example of industry consolidation; this is also denoted by Terreri (2011, p. 22). Such consolidations could also occur in the future. If they do, the industry would be comprised of a reduced number of players. Consequently, less competition in the North American market would be expected to result.

The refrigerated warehouse industry exhibits average historical growth. In Canada, the refrigerated warehouse capacity grew at a CAGR of nearly 3.6% between the years 1998 and 2010. This number for the US is approximated at 5% (Salin, 2010, p. 12). According to Salin (2010), the growth of refrigerated warehouse capacity depends on regional population. However other factors could also affect future growth.

One factor would be changes in industry regulations. Regulations, focused on the safety of refrigerants used in cooling facilities, are becoming stricter in the industry (Terreri, 2011, p. 22). This has led to harsh fines imposed on incumbents that do not comply with the new regulations. Increased regulations and fines could deter entries; it could also pressure the growth of incumbents. Another example would be changes in consumer habits. If demand for chilled and frozen food increases due to change in life styles, for instance, the demand for refrigerated warehousing could increase. Forecasting future industry growth requires consideration of these and similar factors that influence demand for refrigerated warehousing.

Table 4-1: North America's top 25 PRW companies and capacities(Adopted from “IARW North American”, 2011)

	Company Name	Refrigerated Area (cubic feet)
1	AmeriCold Logistics LLC	878,079,061
2	Millard Refrigerated Services	293,700,000
3	United States Cold Storage	186,189,862
4	Preferred Freezer Services	170,250,625
5	Versacold	127,486,198
6	Castle & Cooke Cold Storage	111,867,380
7	Interstate Warehousing, Inc.	73,120,368
8	Burris Refrigerated Logistics	62,326,576
9	Nordic Cold Storage, LLC	59,529,000
10	Cloverleaf Cold Storage Co.	59,457,489
11	Columbia Colstor, Inc.	50,610,000
12	Total Logistic Control, LLC	47,480,066
13	Richmond Cold Storage Company	44,657,281
14	Henningsen Cold Storage Co.	41,785,309
15	Frialsa Frigorificos S.A. de C.V.	39,646,965
16	Hanson Logistics	35,178,539
17	Conestoga Cold Storage	30,620,000
18	Congébec Logistics, Inc.	26,650,000
19	Confederation Freezers	26,450,000
20	Terminal Freezers, Inc.	24,430,906
21	Zero Mountain, Inc.	23,644,000
22	Trenton Cold Storage, Inc.	22,835,972
23	Interstate Cold Storage, Inc.	21,403,000
24	Allied Frozen Storage, Inc.	21,246,747
25	Hall's Warehouse Corporation	20,625,304
	Total North American Top 25 Space:	2,499,273,648

4.2 VersaCold Overview

The origin of VersaCold goes back to 1946. At that time, B.C. Ice and Cold Storage Company, called VersaCold today, established a facility at Vancouver's waterfront to serve the fishing industry. From that time until the 1980s, VersaCold had emerged as an established player

in the refrigerated warehousing industry in Western Canada, operating nearly 16.8 million cubic feet of refrigerated space. Since then, the company has grown both organically and through mergers and acquisitions.

VersaCold Corporation initially went public on Dec 8, 1993 (“IPO Prospectus”, 2002). Following the proposal of company’s board of directors, the company was reorganized on Feb 4, 2002 through a court approved Plan of Arrangement pursuant to Section 252 of British Columbia’s Company Act (“News release”, 2002). The plan of arrangement converted the company from a corporate entity into an income fund trust. VersaCold Income Fund became public by purchasing 100% of the public shares of VersaCold Corporation. The company’s shares were exchanged to fund units on a one-for-one basis (“News release”, 2002). Since this was a share exchange, the underlying ownership of the public entity did not change. VersaCold was privatized on Aug 3, 2007 when Eimskip Holdings Inc., an indirect, wholly-owned subsidiary of Hf. Eimskipafélag islands acquired all the issued and outstanding trust units of VersaCold Income Fund (“News release”, 2007).

According to data presented in Table 4-1, it is currently one of the top five players in the North American refrigerated warehousing industry, holding nearly 5% of the market share in the region. Prior to the sale of US and other non-Canadian assets to AmeriCold in December 2010, the company offered a wide range of services to customers globally. Currently, however, it only serves Canadian markets. The following section discusses the services VersaCold offers and the market segments it serves.

4.2.1 Services and Markets

Reviewing the industry’s supply chain facilitates the understanding of the services that the company offers. Figure 4-1 illustrates the supply chain of the industry.

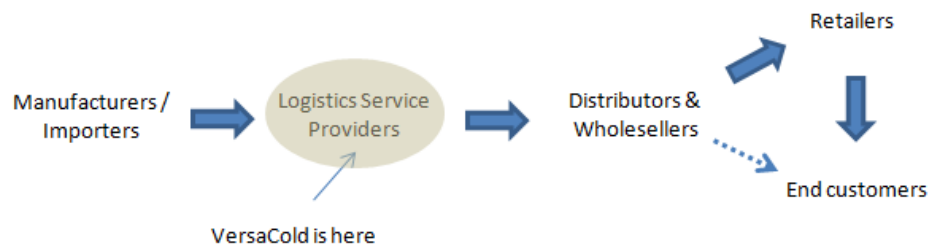


Figure 4-1: PRW Industry Supply Chain

The PRW supply chain has four distinct constituents. Manufacturers or importers provide both processed and unprocessed products. Logistics service providers offer various services including storage, product handling and transportation. Distributors and wholesalers deliver a range of products from different manufacturers and producers to retailers or end customers. Lastly, retailers, such as supermarket chains and restaurants, distribute products to end consumers. In this supply chain, VersaCold services fall under the category of logistics service providers, as depicted in Figure 4-1.

VersaCold temperature controlled logistics services are threefold: storage, transportation and value-added services.

Storage services

Storage services are offered to customers to allow them to store perishable goods in refrigerated warehouses. Goods may be stored in pallets, cases, or bulk. In general, customers are charged an initial storage and handling fee. Subsequently, they are charged recurring storage fees.

Transportation services

VersaCold provides refrigerated transportation services through owned or managed fleets or subcontractors. Transportation services offered by VersaCold include retrieving items from warehouses and shipping them to retailers and wholesalers. In some cases, material may be retrieved and delivered to food processors for further processing. The company also offers online services for bills of lading, freight charges, and proofs of delivery and shipments.

Value-added services

VersaCold offers a variety of value-added services to its customers: Blast Freezing – freezing products quickly with a focused control of sub-zero air; Free Flow Freezing –freezing of single fruit and vegetable products; Inventory Management; and, Facility Management, including consulting and support of logistics, are just a few examples. In addition to these, VersaCold also offers material handling services when required. Some goods are stored on pallets in warehouses and are delivered to destination points on pallets – this is called “pallet-in-pallet-out”. Typically, no additional handling service is required for these types. However, sometimes, customers may need to transport only a few cases from pallets or combine cases from different pallets. This would require special handling, which the company provides.

VersaCold offers its services to retail, commodity, and manufacturing sectors in Canada. In the retail sector, the company services supermarket chains and quick service restaurants primarily. These customers usually receive case based products from nearby distribution centers. These deliveries are made-to-order. The services that are offered to retail customers include the provision of storage space, cross docking, track and trace, transportation and delivery to store. In the commodity sector, VersaCold provides storage, packaging, and delivery services. These services pertain to products such as meat, poultry, fish, seafood, fruit and vegetables. Lastly, the services that the company offers to manufacturers include the provision of storage space, order selection, transportation and consolidation. Consolidation services include both the consolidation of numerous small loads into larger and more economic deliveries and the breakdown of larger shipment into smaller lots.

4.3 M&A Case Studies at VersaCold

Thus far, this paper has covered the concepts of M&A, change management, and an overview of the PRW industry and VersaCold. These concepts are now applied to Versacold’s mergers and acquisitions. In this section, two M&A cases in VesaCold are presented. For each case, first the background of the acquired company is reviewed. Next, the characteristics of the M&, based on the material covered in sections 1 and 2, are explored.

The information for these cases is obtained by primary and secondary research. Some sources of information were VersaCold’s external press releases, interviews with VersaCold’s CEO, CFO and other senior management, VersaCold’s internal communication news letter ‘Ice

line' and 'briefing', VersaCold's internal announcement documents, and VersaCold's Human Resources memos 'Talking Points' to facility managers giving advice on how to communicate the news of the M&A.

4.3.1 Case 1 – Acquisition of Geneva Lakes Cold Storage/Wisconsin Logistics

About Geneva Lakes & Wisconsin Logistics:

A family owned business, Geneva Lakes Cold Storage was founded in 1991 in Darien, Wisconsin, with Al Pokel Jr. as President and CEO. The company's roots, however, date back to the 1930s when Pokel's father founded the 'Plymouth Ice & Cold Company'. Al Sr. brought ice from the frozen mill pond in Plymouth, WI, carried it using horses, and stored it in a sawdust-insulated warehouse to be delivered later to local homes and businesses. As the refrigeration industry evolved, so did the company. By the 1950s, the company had three ammonia refrigerated warehouses and high profile customers such as Kraft and the US Dept. of Agriculture. Al Sr. retired in the 1960s and left the company, which at the time had grown to two divisions of Northland Cold Storage and Plymouth Cold Storage, to his sons Jerry and Al Jr. Subsequently, Plymouth Cold Storage was sold. Over the next 25 years, the Pokels focused on expanding Northland Cold storage to include five different locations in Green Bay, WI, totaling over 500,000 square feet. In 1990, Northland grew further and expanded outside of the Green Bay. In 1991, the family decided to split the business into two companies one being Geneva Lakes Cold storage located in Darien, Wisconsin. Under the leadership of Al Pokel Jr., Geneva lakes Cold Storage continued to prosper over the next 12 years and was acquired by VersaCold in 2003. At the time, Geneva Lakes had a refrigerated storage capacity of 16 million cubic feet and was considered one of Wisconsin's largest public refrigerated warehousing companies.

Wisconsin Logistics was founded in 1996 to serve as the transportation division of Geneva Lakes Cold Storage Company. Starting modestly with only two semi-tractors and five trailers, the business grew to 40 semi tractors and 70 trailers. Wisconsin logistics operated out of the Geneva Lakes Cold storage facility in Darien under the same management. It offered truckload and less-than-truckload transportation services, both refrigerated and non-refrigerated. These services were provided not only to Geneva Lakes customers, but also to its own customers across the Midwest United States.

Geneva Lakes was a financially appealing business with a stable revenue stream. According to VersaCold's press release (Oct 7, 2003), Geneva Lakes increased its revenues from 2000 to 2002 by over 14%, from US\$20.8 million to US\$23.8 million. For the six months ended June 30, 2003, Geneva Lakes produced revenue of approximately US\$10.4 million. The majority of this revenue was derived from two giant US food processors with which Geneva Lakes had long term relationship and long term contracts. These key customers were Kraft Foods Inc. and Bird Eye Foods, a leading manufacturer and marketer of frozen vegetables. Together, these two customers comprised 92% of Geneva Lakes revenue in 2002 (VersaCold's press release on Oct 7, 2003). Under the contract with Kraft Foods, Geneva Lakes was the sole provider of refrigerated warehousing and logistics services until 2010 to all three of Kraft's frozen pizza production facilities in Wisconsin, where Kraft's entire U.S. pizza production was consolidated. Kraft was a customer of Geneva Lakes since 1994. Under the contract with Birds Eye Foods, Geneva Lakes was the provider of refrigerated warehousing and logistics services until 2006. Birds Eye was the largest producer of private label frozen vegetables in the US and a significant producer of branded frozen vegetables. The Geneva Lakes' 631,016 square feet facility was ideally located adjacent to Birds Eye's 350,000 square feet vegetable processing facility - the largest freezing plant in their network. Birds Eye Foods was a Geneva Lakes customer since 1991.

Characteristics of the Acquisition:

VersaCold purchased the cold storage and logistics businesses of Geneva Lakes Cold Storage Inc. and Wisconsin Logistics Inc. (collectively 'Geneva Lakes') in 2003. The transaction was classified as an acquisition rather than a merger because VersaCold took complete ownership and control over Geneva Lakes. This was a private acquisition because Geneva Lakes was a private company at the time of the acquisition. The transaction was friendly rather than hostile. The Pokel family had listed their business for sale and VersaCold responded to the opportunity. Amicable negotiations were made between the family and VersaCold's management and both parties were pleased with the deal. As part of the deal, the Pokel family stayed for six months on contract after the sale to help smooth the transition.

From an economic perspective, this transaction was a horizontal acquisition as Geneva Lakes was operating in the same industry as VersaCold providing the same refrigerated warehousing and transportation services. At the time, VersaCold operated 23 temperature-controlled facilities and a fully integrated national refrigerated distribution network in Canada.

The acquisition of Geneva Lakes increased VersaCold's total refrigerated storage space by approximately 26% to 77.1 million cubic feet. Prior to this acquisition, VersaCold did not have any presence in the US market. This acquisition was a key strategic move by VersaCold in pursuing its growth objectives and accessing the lucrative US market. "Growth and acquisition are, of course, cornerstones of our business strategy," said Chairman, President and CEO Brent Sugden in the announcement. "This is an exciting opportunity for us to raise our profile in the US, and to strengthen our revenue stream." It is worth mentioning that the acquisition of Geneva Lakes did not make VersaCold a key national player in the US market, but rather a small entrant with strong local presence. The intention was to penetrate the market and set the stage for future expansions. To put this into perspective, Geneva Lakes' storage capacity of 16 million cubic feet is compared to the total public refrigerated warehouse capacity of the United States; According to the "Capacity of Refrigerated Warehouses -2001 Summary" report retrieved from the United States Department of Agriculture (Jan 2002), the public general warehouse capacity totaled 2.25 billion cubic feet in 2001. This means that Geneva Lakes only had 0.71% of the total capacity of the United States. Since VersaCold's market share was not significantly increased, its market power remained the same and service prices were unaffected. The US market had a monopolistic structure with many fragmented players. As such, players did not have a significant influence over prices.

From a financing view point, it was for the most part a cash transaction because the majority of the consideration between VersaCold and the Pokel family was cash. From VersaCold's perspective the US\$45 million acquisition was funded by a combination of US\$25 million of seven-year, non-amortizing debt provided by Metropolitan Life Insurance Company, the assumption of current equipment financing, and vendor financing, as well as by a portion of the net proceeds from the offering of debentures announced concurrent with the acquisition announcement. On Oct 7, 2003, VersaCold announced that it "has entered into an agreement to sell, to a syndicate of underwriters led by TD Securities Inc., C\$40 million principal amount of Convertible Extendible Subordinated Debentures with a coupon of 8.5% and convertible, at the option of the holder, into Units of Versacold at \$8.35 per Unit." This acquisition is consistent with the trend in the sixth merger wave of 2003 to 2007 in which most M&As were financed with cash and debt securities.

From the motivational perspective, this acquisition was pursued to expand the geographical reach of the company into United States and position VersaCold for further acquisitions in the US. This was consistent with VersaCold's corporate strategy of growth and acquisition:

"We look forward to growing our business with our existing customers at Geneva Lakes as they grow theirs. At the same time, we see opportunities to grow our overall customer base. The acquisition provides us with a platform for future expansion in the US and opportunities to expand our relationships with our new US customer base, while the addition of a US logistics business complements our already profitable transportation business in Canada." said Versacold CEO, Brent Sugden in 2003.

Geneva Lakes was chosen for a few reasons. First, it had a strong relationship with two major US food processors: Kraft Foods Inc and Birds Eye Foods. "We are very pleased to be entering a long-term relationship with Birds Eye Foods and expanding our existing relationship with Kraft into the US," said Versacold CEO, Brent Sugden in 2003. Second, it had a consistent financial and operational track record. Due to its long term contracts with its two major customers, Geneva Lakes was expected to provide a stable and predictable revenue stream which was anticipated to be 10% of VersaCold's revenue post acquisition. "Geneva Lakes is an important and valued partner to both of these major food processors, and our contracts with them will contribute a stable revenue stream to Versacold." said Brent Sugden in 2003. Third, Geneva Lakes' transportation network was a complement to VersaCold's transportation network and would enhance VersaCold's cross-border transportation network.

An interview with VersaCold's senior executives in 2011 revealed that after 8 years VersaCold was still very pleased with this acquisition. They indicated that they achieved all the stated goals and objectives from this transaction and gave it a score of 5 out of 5.

4.3.2 Case 2 – Acquisition of P&O Cold Logistics (POCL)

About P&O Cold Logistics (POCL):

P&O Cold Logistics (POCL) was a division of Peninsular and Oriental Steam Navigation Company generally known as P&O. Before talking about POCL, this section provides a brief review P&O, its parent company. P&O was a British shipping and logistics company established in the early 19th century. For the initial 140 years of its operation P&O was mainly a shipping company. In the 1970s, the company started to diversify and engage in large construction

projects, house building, property investments and many other services not directly related to its core operations in freight and passenger shipping. It had become a global group of over 250 companies. In the 1990s and early 2000s, however, most of these companies were sold as P&O decided to concentrate on ferries, ports and other logistics operations. (POCL was among the companies sold). P&O was a global player in port operations with involvements at 50 ports in 19 countries around the world (“PONL Legacy”, 2009). It was the biggest ferry operator in the UK and a top supplier of business-to-business logistics in Europe. P&O was acquired in March 2006 by Dubai Ports World for £3.3 billion (“Our history”, 2011). Currently P&O continues to operate as a subsidiary of Dubai Ports World but has retained its brand.

P&O Cold Logistics (POCL), a wholly-owned subsidiary of P&O, was one of the world’s leading operators in the field of public refrigerated warehousing and distribution, a field that was non-core to its parent’s line of business. Established in mid 1950s, POCL was an efficiently run and profitable business with a decentralized management model. It had a total of 49 modern facilities with a total refrigerated storage capacity of approximately 193 million cubic feet. A considerably large portion of POCL’s operation was in the United States with 24 facilities and a total storage capacity of over 134 million cubic feet. The rest of the facilities were located in Australia, New Zealand and Argentina (Table 4-2). In all these four markets, POCL had a strong reputation and was among the top three PRW players. With over 3000 employees and hundreds of vehicles, POCL was delivering an integrated range of refrigerated warehousing and transportation services to a large customer base that included some high profile customers such as Dannon, Wal-Mart, Trader Joes and Breyers.

Table 4-2: Facilities of VersaCold and POCL (“Versacold to Acquire P&O Cold Logistics”, 2005)

Market Position	Country	VersaCold Facilities	POCL Facilities	Combined Facilities	Combined Capacity (million cubic feet)	Capacity by Geography
3	United States	2	24	26	154	57%
2	Canada	23	0	23	59	22%
2	Australia	0	13	13	36	13%
2	New Zealand	0	10	10	16	6%
1	Argentina	0	2	2	7	3%
Total		25	49	74	272	100%

POCL was acquired by VersaCold in November 2005 for C\$382 million. At the time, POCL had shown a stable and growing financial performance. In each of its four operating jurisdictions, POCL had generated a steady increase in revenue and EBITDA since 2002. For the 12-month period ended June 30, 2005, POCL generated revenue of C\$503.8 million and EBITDA of C\$70.5 million. To provide a comparison, VersaCold generated revenue of C\$179.8 million and EBITDA of C\$34.0 million during the same period.

Characteristics of the Acquisition:

The purchase of POCL is classified as an acquisition rather than a merger since VersaCold took complete ownership and control over POCL. Although VersaCold had a decentralized model of management and historically preferred to maintain the brand of its acquired companies, in this case it was contractually obligated to cease the use of POCL's name. As part of the contract, any use and reference to the name P&O or POCL needed to cease as soon as practically possible following the transaction. That included the registered or trading name of each facility, signage, logo, stationary documents and material, etc.

From a private versus public acquisition standpoint, this transaction falls under public category. This is due to POCL being a wholly-owned subsidiary of P&O which was a public company. P&O's stocks were traded on London Stock Exchange. The purchase was a friendly transactions in which the two parties came to a negotiated agreement. As such, this was not a case of hostile takeover.

From a financing perspective, the transaction between VersaCold and P&O was a combination of issued debentures and cash. From the C\$382 million purchase price, P&O agreed to take, as partial consideration for the purchase price, a US\$60 million of a new series of extendible convertible unsecured subordinated debentures of Versacold. The remainder was paid by cash through committed credit facilities with the Bank of Nova Scotia and the Toronto Dominion Bank.

From an economic perspective, the acquisition of POCL is classified as a horizontal acquisition because POCL was operating in the same industry -public refrigerated warehousing and distribution- and was providing the same services as VersaCold. At the time, VersaCold operated 25 temperature-controlled facilities (23 in Canada and 2 in the United States), with a total capacity of 79 million cubic feet while POCL had 49 facilities (24 in United States, 13 in

Australia, 10 in New Zealand , and 2 in Argentina) with a total capacity of 193 million cubic feet. This acquisition increased VersaCold's total capacity by 144%. This acquisition enabled VersaCold to considerably expand its footprint in the United States and access new markets.

The acquisition of POCL had several motivations. First, it was a good fit with the corporate strategy of growth through acquisition. The corporate goal was to "double the business by 2007". As discussed previously, acquisition of Geneva Lakes started the path towards penetrating the lucrative US market and was intended as a starting point for more expansions in the United States. As such, POCL was viewed as a great candidate for acquisition as it had a considerable presence in the US market. "The POCL acquisition fits ideally with our previously announced, ongoing program to pursue profitable growth through internal initiatives and accretive acquisition opportunities." said VersaCold's CEO, Brent Sugden, in a news release on Nov 1, 2005. "Although our initial interest was driven by the US assets, I'm impressed with what I've seen on a tour of the other locations. These are profitable, high-quality operations that operate virtually autonomously under the guidance of great management." The acquisition of POCL was a fantastic milestone for VersaCold as it allowed it to actually triple the business by 2006. In addition to the strategic fit, there was a great fit between the business models of the two companies, the culture of growth through expansion and the decentralized management approach. "I am especially pleased with the compatibility of POCL's management structure and the quality and experience of its senior management." said Brent Sugden.

The second motivation for the acquisition was its financial prospects. With this purchase, VersaCold acquired modern facilities in high quality locations at a very attractive price. The facilities were located in either high consumption areas or close to manufacturers. In either case, the facilities were very close to the source of revenue. Out of the 49 facilities acquired, 30 were owned, 17 leased and 2 managed. The promising financial prospects of the acquisition made it immediately accretive to distributable cash flow per unit. It, therefore, allowed VersaCold to increase its cash distribution to its investors by \$0.07 to \$1.00 per unit. This made VersaCold more attractive to investors. "We are delighted and very fortunate to be acquiring a leading PRW business at a price that is immediately accretive" said Brent Sugden, CEO of Versacold in a news release on Nov1, 2005.

Another motivation for the acquisition of POCL was to gain market share and expand the customer base:

“The acquisition will significantly strengthen Versacold's North American platform by positioning us as the third largest PRW company in the strategically important U.S. market and, in particular, the market leader in two of the top U.S. regional markets - California and Texas. Versacold will also have a strong position in Boston, Las Vegas and Salt Lake City. In addition to the strong platform in the US, we are acquiring POCL's market-leading profitable PRW businesses in Australia, New Zealand and Argentina” said Brent Sugden, Versacold’s CEO (VersaCold to acquire P&O Cold Logistics, 2005).

POCL was the second largest PRW company in Australia and New Zealand and was the largest in Argentina (Table 4-2). The acquisition also provided VersaCold with a significantly enhanced customer base with virtually no overlap among key customers. Through this acquisition Versacold gained several high profile customers that it did not service. These included large companies such as Breyer's, Dannon, Grocery Outlet, Pilgrim's Pride, Smart & Final, Trader Joes, Wakefern and Wal-Mart.

5. Analysis of Change Management in VersaCold's M&A

This section analyzes VersaCold's effectiveness of change management for the two cases presented in section 4.3.1 and 4.3.2. The effectiveness of change management is gauged using the three change management models presented in section 3.3. Following the analysis of the two cases, a comparison is made between how change was managed in these two cases.

5.1 Case 1- Geneva Lakes Cold Storage/Wisconsin Logistics

The acquisition of Geneva Lakes did not introduce many changes to the operation of VersaCold and Geneva Lakes. VersaCold had a decentralized philosophy of operation that encouraged entrepreneurial spirit at the facility level. VersaCold's model of business operation was to provide its facility managers the autonomy to run their facilities as long as they delivered acceptable financial results. As such, Geneva Lakes was viewed just as a new facility with the same autonomy. Since Geneva Lakes had a consistent history of superior operational and financial performance, there was no need to change its operations. Therefore, business processes, systems, and human resources were left unchanged.

*"In keeping with our decentralized model, it will be business as usual at Geneva Lakes. We will retain the current owners on contract for six months to help smooth the transition. All of the roughly 180 employees of Geneva Lakes and Wisconsin Logistics will be kept on. Facility management will report directly to Prairie Region Vice-President Bruce Smashnuk." said Versacold CEO, Brent Sugden in 2003.*¹

From the customers' perspective, there was also no change. Their point of contact and processes were kept the same. Both Geneva Lakes and Wisconsin Logistics retained their name. There was only a slight modification to the signage that added 'a division of VersaCold Group'. Overall, the scope of change was very limited.

To analyze the effectiveness of change management, the three frameworks presented in section 3.3 are used. First, Kurt Lewin's model is applied. Next, the ADKAR model is used and finally, the ExperiencePoint's seven step model is utilized. For each model a consistent scoring

¹ Source: Talking Point (Oct 7, 2003). Talking Point is an internal VersaCold news letter.

system is used to evaluate how well the change was managed. Table 5-1 shows the scoring scheme used.

Table 5-1: Scoring Scheme

ASSESSMENT	SCORE
Very Low	1
Low	2
Medium	3
High	4
Very High	5

5.1.1 Analysis based on Kurt Lewin’s Model

Kurt Lewin’s model involves three steps of ‘unfreeze’, ‘change’ and ‘freeze’. The model is based on understanding the driving and restraining forces for change. The driving forces for the change were the desire of the Pokel family to sell their business and Versacold’s desire to expand and grow in the United States. As far as the employees of the Geneva Lakes were concerned, this was the reason for the change and initiated the ‘unfreeze’ phase. This phase was done quickly and efficiently. Through an excellent communication campaign, the employees of both VersaCold and Geneva Lakes were notified of the reasons for change. The communication was very strong throughout the change process and involved various channels such as internal newsletters (Ice line and Briefings), memos, announcements and emails as well as several facility visits and face to face meetings. This was consistent with communication best practices and was done very well throughout the change process. The success of the unfreeze phase is rated as ‘very high’ or 5.

The next stage was the actual change. The restraining forces for the change were the anxiety of Geneva Lakes’ employees in regards to the acquisitions. This is better understood in the context of the merger emotion syndrome discussed in section 3.1 particularly the Denial, Fear, Anger and Sadness stages. Geneva Lakes had 190 employees in total: 7 in management, 134 in Geneva Lakes and 49 in Wisconsin Logistics. To minimize the scope of change, VersaCold announced that it would keep all staff onboard. Although there was no plan to change the staff, it was still critical to manage employee emotions through the transition to minimize the restraining

forces of these employees, and to keep them engaged. Therefore, VersaCold’s CEO, Brent Sugden, and VersaCold’s Prairie Region Vice-President, Bruce Smashnuk, made repeated visits to Geneva Lakes facility, spoke with the staff and assured them of no change. Additionally, several communication vehicles such as internal newsletters (Ice line and Briefings), memos, announcements and email were used to reinforce the message and keep employees informed. VersaCold’s strong communication throughout the transition resulted in the creation of trust in employees. VersaCold was viewed as a new ‘good owner’. Although it is common to see a larger employee turnover in M&A cases, in this case no increase in employee turnover was seen. This is a testament to the success of change management in this case. Since VersaCold intentionally minimized the scope of change in the Geneva Lakes case and supplemented it with extensive and strong communication, the ‘change’ phase was completed very successful. This phase is rated 5.

Following the change stage is the ‘freeze’ stage. As employees became comfortable that the change does not affect them, they became settled in their roles and ‘freezing’ occurred. The only real change occurred at the management level. For the local management, a Geneva Lakes manager was promoted to the position of Geneva Lakes general manager. This was a good decision as the general manager was already familiar with the business and had good relationships with the staff. This also sent a positive message to staff and indicated that VersaCold trusts the abilities of Geneva lakes managers rather than bringing a manager of its own to run Geneva Lakes. VersaCold also prudently retained the Pokel family for six months to assist in the transition. By the end of the sixth month, the general manager was fully settled in the role. The freezing stage was managed well and is assigned a score of 5. Table 5-2 summarizes the scores given to the Geneva Lakes acquisition based on the Kurt Lewin’s model of change management.

Table 5-2: Scoring Geneva Lakes case based on the Kurt Lewin's Model

STAGE	SCORE
Unfreeze	5
Change	5
Freeze	5

5.1.2 Analysis based on the ADKAR Model

In this section, the ADKAR model is used to assess the effectiveness of change management in the Geneva Lakes acquisition case. The ADKAR model is focused on the people and believes that change is only possible if people can fully transition through five stages of Awareness, Desire, Knowledge, Ability and Reinforcement. In this section, each step is explored and a score is assigned.

Awareness was raised through a consistent campaign of communication. Every employee knew that the current owners wished to sell the business and move on. They also knew that VersaCold had a vision to expand in the United State and grow further. The reason for acquisition was clear for all staff. This resulted in a very high awareness among the employees of both Geneva Lakes and VersaCold. For this reason, a score of 5 is assigned to the Awareness stage.

Desire was created through establishing trust among staff. The VersaCold's CEO and Vice President made repeated visits to the site in casual settings, spoke with staff and openly communicated with them. As a result, VersaCold gained the trust of the staff and was viewed as a 'good new owner'. Employees were engaged in the process and participated in the transition. Everyone knew that there is not much change required on their part. Although this step was done relatively well, it did not create a major motivation for Geneva Lakes employees. VersaCold's attempts, at best, calmed down the employees that there would be no change, but did not provide any immediate incentive or opportunity for advancement. From the perspective of the employees, it was basically business as usual just with a new owner. For this reason, a score of 4 is assigned to the 'Desire' stage.

Knowledge already existed. Since there was no change to systems, business processes and human resources, employees did not need to learn anything new. All the previous processes were left unchanged. Also, because VersaCold had a decentralized model of operation, it did not force any new way of doing business on the local management. The general manager was given the autonomy to run the business with his knowledge and experience. This stage, therefore, did not require much attempt from VersaCold. Nevertheless, because employees had the knowledge needed to do their job, a score of 5 is assigned to this stage.

The ability of the employees to carry their responsibilities was already proven. Since there was no change to the business practices and no new knowledge, there was little to be done

in transforming the knowledge ‘theory’ to ‘practice’. The VersaCold’s CEO and Vice President did support the local manager and provided coaching and feedback. The feedback was generally positive as the local manager’s performance was satisfactory and Geneva Lakes was meeting the set goals. Therefore, a score of 5 is assigned to the Ability phase.

Reinforcement was given through a continuous cycle of coaching, and providing feedback. Geneva Lakes continued to deliver favorable results year after year. According to Bob Lewarne, VersaCold Senior VP of Operations, for three years after the acquisition Geneva Lakes consistently met their target for EBITA. For this reason, a score of 5 is assigned to the ‘Reinforcement’ stage.

Table 5-3 summarizes the scores given to the Geneva Lakes acquisition based on the ADKAR model of change management. In summary, this case received high scores because the scope of change was minimized and also because the change, though limited, was managed very well. The strength of VersaCold’s best practice communication methods was a major contributor to the success of various stages of change management.

Table 5-3: Scoring Geneva Lakes case based on the ADKAR Model

STAGE	SCORE
Awareness	5
Desire	4
Knowledge	5
Ability	5
Reinforcement	5

5.1.3 Analysis based on the ExperiencePoint’s Model

In this section, the ExperiencePoint’s seven step model to change management is used to analyze the quality of decision making and change management in the case of Geneva Lakes acquisition. As discussed in section 3.3.3, the model is divided into two categories. The first category focuses on aligning key stakeholders for the decision making process and includes three stages of ‘Understand’, ‘Enlist’ and ‘Envisage’. The second category focuses on executing

change across the organization and involves four steps of ‘Motivate’, ‘Communicate’, ‘Act’, and ‘Consolidate’. In this section, each step is analyzed and a score is assigned.

Understand – This stage focuses on understanding the need for change through regular environmental scanning and organizational assessments. VersaCold’s CEO and senior executives were veterans in the PRW industry with many years of experience. Additionally, they were well connected in the industry and aware of the trends and new developments. This deep understanding of the external environment and internal capabilities resulted in a corporate strategy for growth through acquisition. The decision to acquire Geneva Lakes, therefore, was aligned with the corporate strategy and a direct result of clear understanding of the reasons for change. Once Geneva Lakes was identified as a possible target for acquisition, a detailed and thorough investigation was done to assess the suitability of the acquisition that took roughly nine months. Throughout the due diligence process, financial, operational, management, employee relations and environmental aspects of the Geneva Lakes and Wisconsin Logistics were carefully investigated. For the extensive amount of knowledge and understanding that resulted in the decision to acquire Geneva Lakes, a score of 5 is assigned to this step.

Enlist – This stage recommends assigning a team of powerful and influential stakeholders to develop a shared strategy and vision. At VersaCold this step was done; the core team included the CEO, CFO and Vice Presidents of the operations. Since all these people met the requirements of ‘powerful’ and ‘influential’ stakeholders in this model, it is assessed that this selection was suitable and in accordance with the model’s recommendation. A score of 5 is assigned to this stage.

Envisage – This stage recommends building a vision for a desired future state. At VersaCold this vision was the corporate strategy of growth and expansion through acquisition. VersaCold’s strategy was to expand its geographical presence across the border and penetrate the US market. Its acquisition of Geneva Lakes fit well with this strategy. Since a vision was created according to this model’s recommendation, a score of 5 is assigned to this stage.

Motivate – This is the first stage in executing the change across the organization. This stage focuses on helping the stakeholders across the organization understand the reasons for change. As explained in prior sections, the reason for change was the Pokel family’s wish to sell their business and VersaCold’s vision to expand its geographical footprint into the United States.

The communication of the reasons for change was done very well and, thus, every employee understood the reasons for change. Although this prepared the employees to accept the change, it didn't provide them with clear incentives to embrace the change. At best, employees were as motivated and engaged as they were prior to the acquisition. Hence, a score of 4 is assigned to this stage.

Communicate – This stage of the execution focuses on communicating the vision to the affected stakeholders. This stage was done particularly well at VersaCold. A comprehensive communication campaign was developed to inform the employees of both firms of the vision. The campaign included different communication channels such as internal newsletters (Ice line and briefing), announcement, memos, and in-person meetings by VersaCold CEO and Vice President. A score of 5 is assigned to this stage.

Act – This stage is concerned with aligning the organization with its new vision and strategy. It involves the systems, business processes and organization structure. Due to the decentralized operation philosophy of VersaCold, the acquisition of Geneva Lakes did not introduce many changes to the organization. Since the process was already aligned with the vision, there was no need to change. Therefore, a score of 5 is assigned to this stage.

Consolidate – The last stage of executing change across the organization involves continuous monitoring and measurement of the performance. This is intended to capture possible deviations from the vision and make adjustments such that the intended change becomes part of the organization culture. At VersaCold, this stage was done through establishing goals and objectives for Geneva Lakes general manager. These goals included operational and financial performance targets. Performance was continuously monitored and feedback was given to Geneva Lakes general manager. For three years following the acquisition, these goals were consistently met. Therefore, a score of 5 is assigned to this stage.

Table 5-4 provides a summary of the scores given to the Geneva Lakes acquisition case study based on the ExperiencePoint's 7-step model of change management.

Table 5-4: Scoring Geneva Lakes case based on the ExperiencePoint 7-step Model

STAGE	SCORE
Understand	5
Enlist	5
Envisage	5
Motivate	4
Communicate	5
Act	5
Consolidate	5

5.2 Case 2- P&O Cold Logistics (POCL)

Through the acquisition of POCL in 2005, VersaCold suddenly became very large. An acquisition of this size would normally bring many changes to the organizations. However, in this case, the changes were limited to the corporate level. Operationally, the changes were minimized due to three factors. First, both POCL and VersaCold operated under decentralized management models in which entrepreneurial spirit was encouraged. Following the acquisition, VersaCold continued to allow POCL regional units and individual facilities maximum license to be creative and flexible in meeting the unique needs of their customers and employees. Second, there was no overlap between the customers of VersaCold and POCL and, thus, there was no competitive conflict between the units. Third, there was no change to systems and processes of each company. At the corporate level, though, there were some changes to consolidate the functions and remove unnecessary reporting layers. VersaCold's head office in Vancouver became responsible for overall corporate governance including legal, investor relations, strategic direction and policy development. Subsequently, POCL's headquarters located in Sydney, Australia was closed three months after the acquisition. In the US, three members of the senior management team (CEO, President and CFO) were eliminated in the first two months. The regional vice presidents in US along with the heads of the businesses in Australia, New Zealand, and Argentina reported to VersaCold's chairman and CEO, Brent Sugden.

In the next sections, the three frameworks introduced in section 3.3 are used to analyze the change management in the POCL acquisition. First, Kurt Lewin's model is used. Then, the ADKAR model is utilized. Third, the ExperiencePoint's seven step model is applied to the case study.

5.2.1 Analysis based on Kurt Lewin's Model

Using the Kurt Lewin's model, the three stages of unfreeze, change and freeze are explored. For the unfreeze stage, the driving forces for the acquisition are reviewed; P&O had decided to concentrate exclusively on its core container port business and hence was divesting its non-core operations. POCL was considered as a non-core business and as such was put up for sale. VersaCold, on the other hand, had a strategy of growth through acquisition and had a strong interest in expanding its operation in the US. Therefore, the desires of the companies matched and resulted in a friendly acquisition. These desires and motivations were very well communicated to employees of both firms and acted as driving forces for the changes that followed. The motivations were communicated to staff through announcements, news letters, etc. In addition, VersaCold's CEO made a personal visit to all 49 POCL sites and talked to the general managers and staff directly. For these reasons, this stage is assigned a score of 5.

The second stage, change, came very quickly in this acquisition. One large component of the change was VersaCold's contractual obligation to cease the use and reference to the name P&O and POCL. This was a big project that involved changing business name/ trading name, licenses, signs and logos from buildings and vehicles, stationary, packing materials, business forms such as invoice, cheques, etc. Ideally, with a change of this magnitude, all stakeholders should be involved to increase buy-in and cooperation. However, due to time constraints, this step was not fully followed. VersaCold's CEO had rolled out a 100-day plan to address all necessary changes. Although the changes were, for the most part, successfully completed according to the plan, there were some facilities that showed resistance during the process. The interviews revealed that people felt a top-down versus a collaborative approach was used. This approach was in conflict with the decentralized model that the staff was used to and VersaCold was promoting. Consequently, this contributed to a restraining force for change. Another change experienced in the acquisition of POCL, was the elimination of US senior management and the change in reporting relationships. This change was effectively implemented and was supported by appropriate communication. In Australia, New Zealand and Argentina, the heads of the business

were retained and their previous titles were unchanged. This was important and necessary due to the cultural characteristics of those countries. In those countries, specific titles had specific meanings conveying the level of the authority a person has. It was, therefore, wise not to make any changes to the titles. Overall, the change stage was done reasonably well. It would have helped to start the process with a more collaborative approach so facilities would be more willing to participate in the change. Nevertheless, since VersaCold was able to work with facility managers and implemented necessary changes within the required time frame, a rating of 4 is assigned to this stage.

As the changes were implemented, and reporting relationships established, the operation moved towards a more stable state and the focus became on running the business. Consistent with VersaCold’s decentralized management style, the heads of the different business units were given the independence to manage their areas according to the unique needs of their regions. However, VersaCold’s CEO continued to support the various business units and kept them on track through conducting regular performance reviews, quarterly meetings and frequent site visits. These activities, all, contributed to the freezing stage. This stage is assigned a score of 5. Table 5-5 provides a summary of the scores given to the POCL case.

Table 5-5: Scoring POCL case based on the Kurt Lewin's Model

STAGE	SCORE
Unfreeze	5
Change	4
Freeze	5

5.2.2 Analysis based on the ADKAR Model

In this section, the ADKAR model is used to assess the effectiveness of change management in the case of POCL acquisition. The model, designed to transition people through

change, consists of five stages of Awareness, Desire, Knowledge, Ability and Reinforcement. In this section, each stage is explored and a score is assigned.

Awareness was created through a series of communication channels. These included site visits, announcements, newsletters, and materials shared on VersaCold's intranet. The reasons for the acquisition were clearly communicated to all staff. Additionally, VersaCold developed and shared the company's 'purpose' and 'guiding principles' so that every employee becomes aware of what VersaCold is about. The purpose and guiding principles were distributed to all sites on posters and booklets. The purpose was defined as:

*“Be the recognized leader in refrigerated logistics services to the advantage of our customers, employees, and investors. Be First in Cold”.*²

The accompanying communication emphasized awareness on three main components in the company's purpose: customers, employees, investors:

*“To achieve this we must: Provide our customers a competitive service package, Be a preferred place to work for employees, and generate earnings that attract investors and finance capital and demonstrate governance practices that inspire confidence from the public markers”.*³

The guiding principles, on the other hand, promoted awareness of company's culture and were categorized under seven principles:

*“We do what's right!, We are never self-satisfied!, We are courageously open!, We act decisively!, We keep score! We look outside ourselves!, and We have fun!”.*⁴

All of these communication efforts resulted in high awareness among employees of both companies. For this reason, a score of 5 is assigned to the Awareness stage.

The next stage deals with creating desire to participate and support the change. This stage was not done particularly well. First, there was no clear incentive for POCL staff to support the integration of the two firms. Following the acquisition announcement and especially after the

² Source: Talking Point (Dec 15, 2005). Talking Point is an internal VersaCold news letter.

³ Source: Talking Point (Dec 15, 2005). Talking Point is an internal VersaCold news letter.

⁴ Source: Talking Point (Dec 15, 2005). Talking Point is an internal VersaCold news letter.

elimination of the three US senior managements, anxiety increased among staff. There was a concern as to what comes next. This anxiety was especially strong among corporate and back office staff. Without a definitive assurance and incentive, employees were not motivated to support the change. The second aspect that impacted the “desire” stage was the reporting relationship imposed on the middle and senior management of POCL. The new reporting structure, in most cases, required the POCL managers to report to their counterparts in VersaCold. For example, POCL’s director of HR would report to VersaCold’s director of HR. From a psychological viewpoint, this reporting structure had a demotivating effect on managers because it effectively lowered their rank in the management hierarchy. The third element that affected the ‘desire’ stage was the initial rush to change all signage and reference to the name P&O and POCL. Because of the time constraints, VersaCold used an authoritative approach to quickly implement the changes. Little time was spent on motivating the staff and building internal desire to support the required changes. According to the VersaCold’s Senior VP of Operations, Bob Lewarne, some valuable talent was lost during the transition. For these reasons, a score of 2 is assigned to this stage.

The third step of the model focuses on providing the employees with the knowledge. In this case, the acquired company was in the same industry providing the same services as VersaCold. Hence, the employees already had the knowledge to perform their jobs. In addition, the systems and processes were left unchanged so employees did not require gaining new knowledge regarding the systems and processes. Because employees had the knowledge to perform their responsibilities, this stage is assigned a score of 5.

The fourth stage of the ADKAR model, ability, focuses on putting the knowledge into practice. As discussed in the previous section, there was no change to the systems and processes of the companies. Employees continued to have the same responsibilities providing the same services. Therefore, employees already had a good foundation of the ‘theory’ knowledge and ‘practical’ experience. VersaCold supplemented this foundation with regular performance review sessions in which coaching and feedback was provided. Therefore, a score of 5 is assigned to this stage.

The final stage of the ADKAR model deals with reinforcement of the changes. This stage was done relatively well due to strong communication and feedback provided after the transition. Aside from the formal performance review and coaching done by senior management, HR also

played a key role in reinforcing the purpose and guiding principles among the staff. This was evident in documents that HR would send out. For example, the purpose and guiding principles were printed on the cover page of the benefit booklets. In addition, the recognition programs were linked to the guiding principles and were designed to reward employees who demonstrated such principles. For these reasons a score of 5 is assigned to the reinforcement stage.

Table 5-6 summarizes the scores given to the POCL case using the ADKAR model.

Table 5-6: Scoring POCL case based on the ADKAR Model

STAGE	SCORE
Awareness	5
Desire	2
Knowledge	5
Ability	5
Reinforcement	5

5.2.3 Analysis based on the ExperiencePoint’s Model

In this section, the ExperiencePoint’s seven step model is used to analyze the effectiveness of change management in the POCL case. The first three steps (Understand, Enlist, and Envisage) focus on aligning key stakeholders for decision making. The next four steps (Motivate, Communicate, Act, and Consolidate) focus on executing change across the organization. In this section, each step is evaluated and a score is assigned.

Understand – The focus of this step is on the understanding of why change is required through external and internal assessments. As previously discussed, VersaCold’s CEO and senior executives had developed a corporate strategy of growth through acquisition. This was the result of extensive studies and understanding of the external environment as well as the internal capabilities. Therefore, the company was searching for quality acquisition targets that would align with its strategic directions. Being active and well-connected in the industry, VersaCold became aware that P&O is being acquired by Dubai Port and that its non-core business units would be acquisition targets. Through a vigorous and detailed due diligence process, VersaCold gained a

deep understanding of POCL business and its suitability for acquisition. Due to the high level of understanding that led to the decision to acquire POCL, a score of 5 is assigned to this step.

Enlist – This step recommends the assignment of a team of powerful and influential stakeholders to devise a shared strategy and vision. This team consisted of VersaCold’s CEO, CFO and Vice Presidents of operation. Since all these team members were powerful and influential, consistent with the model’s recommendation, this stage is assigned a score of 5.

Envisage – This step recommends developing a desired vision. This was done at the executive level in strategic meetings and resulted in the creation of company’s purpose statement “Be the recognized leader in refrigerated logistics services to the advantage of our customers, employees, and investors. Be First In Cold”. This vision was accompanied by seven ‘guiding principles’ that outlined the envisioned cultural characteristics of the company. This stage is assigned a score of 5.

Motivate – This is the first step of implementing change and it wasn’t done particularly well in this case. As explained previously, there was a high level of anxiety and uncertainty among POCL staff following the announcement of the acquisition. While VersaCold’s senior management were given an incentive (in terms of increased compensation) for managing a larger group, there was no clear incentive for POCL staff to support the integration of the two companies. Furthermore, the reporting relationships established had a demotivating effect for POCL middle and senior management because in most cases they were asked to report to a counterpart rather than a more senior level. For these reasons, a score of 3 is assigned to this step.

Communicate – This step of the implementation process stresses the communication of the vision to the affected stakeholders. This step was done well through a consistent campaign that communicated the ‘purpose’ and ‘guiding principles’ to all employees. The campaign included several communication channels such as the announcement letter, intranet, posters, booklets, and internal newsletters (Iceline and Briefing). This stage is assigned a score of 5.

Act – This stage involves the actual change to align the organization with its new vision and strategy and usually includes adjusting systems and business processes. In this case, however, due to the decentralized model of operation there was no need to change the system and processes. The operation of the two companies was aligned with the goals and visions. The change was limited to two elements. The first element was the change in business name, logo and

signage for POCL facilities which was done successfully in the first 100 days after the acquisition. The second element was the elimination of three US senior management positions and the transfer of corporate functions from Sydney head office to Vancouver head office. These were also completed successfully in the first 100 days. This step was done relatively well and, thus, a score of 5 is assigned.

Consolidate – The final step of executing change across the organization focuses on reinforcing desired outcomes. This was done through performance monitoring (at a minimum on a quarterly basis) and providing feedback. The intent of the feedback was to recognize and reward desired outcomes. If desired outcomes were not achieved, the feedback provided guidance on how to achieve them. Aside from consolidating desired outcomes in the operational and financial elements of the business units’ performance, cultural elements were also reinforced through integrating ‘guiding principles’ in different aspects of the operations. One example was the development of ‘Service Stars’ recognition program in which employees who demonstrated guiding principles in action were nominated for the award. Because of the comprehensive and integrative approaches used to consolidate the change, this stage is assigned a score of 5. Table 5-7 provides a summary of the scores given to the POCL case using the ExperiencePoint’s seven step model of change management.

Table 5-7: Scoring POCL case based on the ExperiencePoint 7-step Model

STAGE	SCORE
Understand	5
Enlist	5
Envisage	5
Motivate	3
Communicate	5
Act	5
Consolidate	5

5.3 Comparison of Cases

In this section, the two cases presented in sections 4.3.1 and 4.3.2 and analyzed in sections 5.1 and 5.2 are compared. Comparisons are made for each of the three change management models. Under each model, the total scores given and any observed differences are explained.

Comparisons based on Kurt Lewin's model

Table 5-8 shows the scores given to both cases using Kurt Lewin's model. The Geneva Lakes case received a perfect score of 15 out of 15 while the POCL case received a near perfect score of 14 out of 15. As these scores suggest, both cases were managed well in absolute terms.

Some similar aspects exist in these two cases that contributed to the success of change management. First, communication was very strong in all stages of the change management. VersaCold made a conscious effort to develop proper communication channels and communication materials that kept the staff informed throughout the process. Second, the management philosophy and culture of both companies were similar. Both were operating under decentralized management models and had a culture of entrepreneurship.

The scores for the two cases only differ in the 'change' stage. In the Geneva Lakes case, this stage was done perfectly. In POCL case, however, some aspects were not ideal as explained in section 5.2. A major difference observed in the 'change' stage between the two cases was the manner in which change was implemented; In the case of Geneva Lakes a collaborative approach was used whereas in the POCL case a more authoritative approach was used. This was partly attributed to the time pressures on the organization due to contractual agreements. Nevertheless, the top-down tone resulted in some resistance among staff and their eagerness to support the change.

Table 5-8: Comparison of cases based on the Kurt Lewin's model

Kurt Lewin's Model	Case 1	Case2
Unfreeze	5	5
Change	5	4
Freeze	5	5
Total Score	15/15	14/15

Comparisons based on ADKAR model

Table 5-9 demonstrates the scores given to the two cases using the ADKAR model. The Geneva Lakes case received a score of 24 out of 25 and the POCL case received a score of 22 out of 25. Neither case received a perfect score, but the scores were still high and indicative of a solid change management.

It is interesting to note that all stages of the ADKAR model except 'Desire' received perfect scores for both cases. This section first looks at the stages that did receive perfect scores (Awareness, Knowledge, Ability, and Reinforcement). Next, the 'Desire' stage is addressed.

The perfect scores for Awareness, Knowledge, Ability and Reinforcement obviously demonstrate that VersaCold is strong in these stages but what is more interesting is the realization that these strengths (especially for Awareness and Reinforcement stages) stem from strong communication. Hence, the effect of Versacold's excellent communication is again noticeable in the ADKAR model. Furthermore, since the acquired companies were already operating in the same field, the staff had the knowledge and ability to perform their tasks. As such, these two stages were relatively easy.

Since neither case received a perfect score for the 'Desire' stage, it can be inferred that, regardless of the case, VersaCold did not perform ideally in this stage. In both cases, a clear incentive for the staff of the acquired companies was lacking. This was more noticeable in the case of POCL acquisition especially because of the established reporting relationships that effectively lowered the ranking of some of POCL's middle and senior managers. Creating desire is an area that VersaCold can improve for its future mergers and acquisitions.

Table 5-9: Comparison of cases based on the ADKAR model

ADKAR Model	Case 1	Case 2
Awareness	5	5
Desire	4	2
Knowledge	5	5
Ability	5	5
Reinforcement	5	5
Total Score	24/25	22/25

Comparisons based on the ExperiencePoint's model

Scores given to the Geneva Lakes and the POCL case using the ExperiencePoint's model is shown in Table 5-10. The Geneva Lakes case received a score of 34 out of 35 while the POCL case obtained a score of 33 out of 35. These high scores again confirm that VersaCold did a good job of managing change for both cases. Also, similar to the other two models, they indicate that the Geneva lakes case was managed better than the POCL case. The difference in the scores is attributed only to the 'Motivate' stage. As discussed in the previous section, this is an area that VersaCold can improve.

Table 5-10: Comparison of cases based on the ExperiencePoint's model

ExperiencePoint Model	Case 1	Case 2
Understand	5	5
Enlist	5	5
Envisage	5	5
Motivate	4	3
Communicate	5	5
Act	5	5
Consolidate	5	5
Total Score	34/35	33/35

6. Recommendations for Managing Change in Future M&A

This paper analyzed VersaCold's acquisition of Geneva Lakes in 2003 and acquisition of POCL in 2005 using three frameworks for change management. Based on the scores these cases received, it is evident that both cases were managed relatively well. Nevertheless, there are areas that VersaCold can improve for its future mergers and acquisitions. The areas on which VersaCold received the lowest scores were creating the desire for change and motivating staff. Aside from change management challenges that these shortcomings created, the lack of a vigorous motivation and incentive program resulted in departure of some talented staff in the case of POCL acquisition. This section offers some recommendations on these areas for VersaCold to use in its future M&As.

Before giving recommendations on motivating and creating incentives for staff affected by M&A, it is important to stress that these measures should be taken very quickly, ideally before the M&A announcement is made. Kay and Shelton (2000, p.27) indicate that within five days of the M&A announcement key employees, across all levels of the organization, usually receive inquiries from competitors and recruiters who are rushing to recruit them. Competitors and recruiters understand that employees face a high level of anxiety and uncertainty in the first few days after the announcement on "whether they have a job or, if they do, where it will be located, where they fit into the new company's structure, how much pay they will receive, or how their performance will be measured." Hence, they take advantage of this period as a prime time to attract talent. This can be a big threat to the organization and can significantly hamper the organization's ability to reach its desired M&A objectives. Therefore, a timely approach to prevent talent leakage is absolutely critical.

The attempts to build incentive and motivation should ideally include all staff, but at a minimum it should include people in key positions. The process to identify key people should start well before the M&A is announced. A best practice method adopted from Galpin and Herndon (2007) recommends that a few of the most senior officers from both companies meet to develop a list of 50 to 100 employees who are vital to the new organization. It also recommends that a person be assigned with the task of retaining those employees; otherwise, this important task becomes overshadowed with the overwhelming tasks of integration.

Creating desire for change and motivation can be done in several ways. First, a sense of urgency needs to be created. This can be done through demonstrating the competitive position of the firm and highlighting either the dangers of not changing or the opportunities that result from the change, or both.

Next, a variety of monetary and/or non-monetary motivation tools can be used. Some examples of monetary motivation tools include retention bonus plans, profit sharing, synergy gain sharing, project completion bonus, etc. These bonus plans are typically tied to performance and become payable in a specified future date. They are designed to encourage staff retention and performance at least until the date the bonus becomes payable. Monetary incentives can be very effective, but they impose a cost on the organization. The benefits and costs of monetary incentive plans should be examined to determine if they are appropriate for the organization.

Non-monetary incentives can also be very powerful in retaining and motivating employees and can be applied to a larger number of employees. One example is involving employees in the integration process. The high level integration process can be broken down to smaller pieces that pertain to operation units. Involving employees in integration processes, even small pieces, help them engage, feel connected, heard and still somehow in control. Another example is recognizing employee accomplishments and praising them. Recognition can take many forms from praising on the spot to more formal approaches such as ‘employee of the month’. Another effective non-monetary incentive is developing career paths for employees that show them a picture of their future with the company if they choose to stay and perform. Another non-monetary incentive is providing employees with more desirable titles. Job title is a delicate subject for employees because it directly taps to their self-esteem and feeling of pride. Worman (2010) suggests assigning titles that people feel proud to share in social gatherings. Another incentive could be offering employees more responsibilities and decision making authority. Some employees really appreciate being in charge of more areas and thrive in that situation. It is therefore beneficial to identify these staff and provide them with the opportunity.

Another area that needs improvement is the reporting structure for post M&A. In the case of the POCL acquisition, the new reporting structure, in many cases, required the POCL managers to report to their counterparts in VersaCold. This had a demotivating effect on the managers. To minimize this effect and to keep managers motivated, Pikula (1999, p.11) suggests mixing employees as much as possible at all organizational levels. She stresses that when

departments are combined, senior management should carefully design a reporting structure such that functional counterparts are not placed in positions of subordinate and supervisory relationship.

Change is a very complex process. As much as this study attempted to gather the pertinent facts in analyzing VersaCold's change management processes associated with historical M&As, obtaining certain information about the detailed dynamics of the process after the fact is a challenge. The lack of fresh, detailed information that could best be captured during the progress of an M&A poses challenges in analyzing the strengths and weaknesses of historical M&As. Nonetheless, it is hoped that the presented analysis of the two cases can help improve the change management processes associated with future mergers and acquisitions of VersaCold.

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