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Alcatel- Nokia Merger: The Challenges of the Change Process.

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Abstract: *Alcatel Lucent is the French-American global conglomerate of telecommunication equipments with a strong and stable wireless equipment department. The company has been recently acquired by Nokia with the sole purpose of building the synergy of their capabilities, markets and technologies. The merger complements Nokia's products with Lucent's optical retransmission and IP routers and switches, which are widely in use by Telecom carriers to manage large amounts of Smartphone data. However, following the merger, the employees at Alcatel has been insecure since the organizational culture of Nokia and Alcatel is completely different. The employees at Alcatel feel threatened by the change. The case discusses the post-acquisition fears and turmoil of Alcatel Lucent and its employees. The breach of psychological contract with the company, the lack of trust over the new management and the absence of direction have given birth to a highly skeptical workforce which is uncertain about its future since the organization is yet at its pre-change phase.*

In May 2016, Michel Combes, the Chief Executive Officer (CEO) of Alcatel Lucent sat in his office musing over the ways to turn around the company and overcome the losses being faced by them due to the merger between Alcatel Lucent and Nokia. Alcatel–Lucent, a French global company focused upon telecommunications equipment, was established just 10 years ago in 2006 when Alcatel merged with the Lucent Technologies. The company operated in more than 130 countries (Exhibit-1) and had been recognized as the “Industry Group Leader for Technology Hardware & Equipment Sector” in the 2014 review of the sustainability indices of Dow Jones and was also listed for 4 consecutive years as one of the top 100 global innovators. However, in April 2015 there was an announcement by Nokia of acquiring Alcatel-Lucent for €15.6 billion in an all-stock deal and by 2016 it owned 91.8% of Alcatel-Lucent’s shares. Alcatel Lucent started its operations as a part of the Nokia Group on January 14, 2016.

THE ORGANIZATION:

The Telecommunication Company, Nokia Corporation proclaimed its intent to purchase Alcatel-Lucent and the acquisition was aimed to produce a stronger adversary in the market in relation to the rival firms Huawei and Ericsson whose revenue was surpassed by Nokia and Alcatel-Lucent together in 2014.

The acquisition was to be approved by the regulators and shareholders and was anticipated to be accomplished by the early 2016. In October 2015, the regulators approved the acquisition and by January 2016 the shareholders also gave their approval. It was concluded that the brand, Alcatel-Lucent, would be replaced by Nokia Corporation but that the division of Bell Labs would be maintained. The laboratory was considered one of the largest R&D amenities in the industry of communications and owned more than 29,000 patents.

The organization commenced its business on January 14, 2016 as a division of the Nokia Corporation. The deal was that one company would be a majority player whereas the other would be a minority player. The merger took place in order to give the context policy a direction.

Even before the acquisition, the company was incurring losses. In 2010, the company reported a net loss of €334 million in 2010, €1.1 billion for the year 2011 and €1.4 billion for 2012. Thus, the company, after consecutive seven years of negative cash flow, decided to cut down 14% of the total workforce (72,000). “The Shift Plan” was also announced by the company, this included a 3 year plan involving refocusing of portfolio on ultra-broadband access, cloud and IP networking and the restructuring of debt. So, even before the acquisition there were certain changes going on within the organization and uncertainty about the future existed even then.

CURRENT SCENARIO:

The organization now caters to a market of 26 billion individuals and it is estimated that about 30,000 employees would be made redundant. At the moment the target for headcount reduction is 15,000. The management of the company is a mix and match of both the companies and not just of Nokia Corporation. The company is working upon a €900 billion cost saving program which would be achieved by achieving a synergy between the companies and by removing and overlapping services/ departments such as sales etc. The removal of the CEO of Alcatel is an indication that Nokia would have a greater say in the state affairs of the new conglomerate. The

change following the acquisition is brutal and the employees have to see various seasons of the change paradigm, before they would finally settle-in again.

THE NEED FOR THE CHANGE

The acquisition by Nokia took place to target a larger addressable market with an improved growth profile. Based on Nokia estimates, the addressable market of the combined company in 2014 was approximately 50% larger than the current addressable networks market for Nokia alone, increasing from approximately EUR 84 billion to approximately EUR 130 billion. The combined company was expected to have a stronger growth profile than Nokia's existing addressable market, with an estimated CAGR of approximately 3.5% for 2014-2019.

Since Alcatel is good in the areas of IP, Fixed Networks which define core networks and Nokia is good in wireless; therefore, the merger was intended to provide one window shop or platform for all the services, just like Huawei and ZTE. The prime objective, henceforth, was to broaden the customer-base by providing complimentary services under one roof.

The merger of both companies intended to target approximately EUR 900 million of operating cost synergies to be achieved on a full year basis in 2019. The operating cost synergies were expected to create a long-term structural cost advantage, coming from a wide-range of areas, including:

- Organizational streamlining, rationalisation of overlapping products and services, central functions, and regional and sales organizations.
- Elimination of multiple overhead costs in real estate, manufacturing and supply-chain, information technology, and overall general and administrative expenses, including redundant public company costs.
- Procurement given expanded purchasing requirements of the combined company.

The combined company would also aim nearly EUR 200 million of shrinkages in interest expenses to be achieved on a full year basis in 2017. The transaction was expected to be accretive to Nokia earnings on a non-IFRS basis (excluding restructuring charges and amortization of intangibles) in 2017. These targets both assume closing of the transaction in the first half of 2016.

Nokia upheld its long term goal to return to an investment grade credit rating and with this merger it aimed to manage the combined capital structure accordingly by holding significant gross and net cash positions and by proactively reducing indebtedness. This included Nokia's

willingness to exercise an early repayment option for its EUR 750 million convertible bond in the fourth quarter of 2015

THE TRANSITION PHASE

Pre-change Period at Alcatel Lucent:

Alcatel-Lucent had a good and enriched culture which focused on equality, delegation of work based on hierarchical structure. The culture allowed open door policy and gave empowerment to their employees. Any employee could discuss his/her concerns with the top management including the CEO who showed profound interest in resolving their key issues and problems rather than focusing more on the degree of problems that the employees were facing.

Since the inception of the company it had a very open communication. Emails were floated to all employees about the current status of the projects and what would be the outlook in terms of future targets. There was a complete transparency and visibility that was well planned and communicated down the chain of commands in the organizational structure.

The company which relied mostly on telecom services companies' projects ensured that the employment contract with the core knowledge workers that are mostly the engineers and project managers was safe as long as the projects were running. Since 2005, there have not been any massive layoffs as the company was successful in managing a diversified portfolio of projects with companies like PTCL, Ufone, and Mobilink, so the psychological contract between the company and employees was as solid as a rock.

Post-acquisition Period at Alcatel Lucent:

Since January, 2016 when Nokia acquired Alcatel-Lucent by 55% of total shares in the company, the employees at Alcatel knew that the things would change drastically at organization level, since acquisitions were more lethal than the deliberate mergers. They understood that the Nokia, being the major stakeholder will have a dominating position and would like to restructure and realign the policies according to its terms and conditions, which will include laying-off's to reduce redundancies in their structural departments, offering new job contracts that will pay less than what employees are currently being offered. Thus, the employees felt the breach of the psychological contract with the company that is recently being acquired by Nokia and no more belonged to them.

The psychological pressure paved a path to occasional rumours where political activities were reported, and politicking was surfacing as a major problem in the disgruntled organization. One instance was the rumour which acclaimed that the line managers were relocating their team members to other departments who were the employees of former company whereas they deem to retain those coming from Nokia to secure their reputation, presence in the company and to seek progressive growth in their career.

The anecdotes like these led to the materialization of uncertainties among employees as to who would be staying as the part of the new organization or who would have to bid farewell to his position. Although, the HR department came into effective role by ensuring employees who are working on project not to worry or feel insecure, unless and until there were instructions; but the employees were doubtful about their Job security. This led to the decline in the productivity level of the employees and the results were alarming as per the project end reports on employee evaluation.

THE CHANGE PROCESS

Planning for Change: Setting the Steppingstone

In order to make progress with the merger by combining the core competencies of the companies, the changes brought about with this merger were to be clearly communicated to the employees at Alcatel group. The leaders at Alcatel were aware of the fact that the rumors and misinformation are taking over the organization as the grievances of employees grew following the acquisition by Nokia. The employees were unclear about the reasons for change and the impact of it on them was negatively exaggerated. Therefore, the Lucent group decided to be very transparent with their employees and devised a communication plan by involving all key-stakeholders in the company.

Communication Plan:

Following the acquisition, many employees were convinced of the fact that their days at Alcatel Lucent were now counted. They failed to understand the reason behind the merger, since as per many of them, the company was doing sufficiently well, with its wireless division and the need for this drastic change was uncalled for. At this point, Alcatel decided to address the grievances of its employees, by keeping communication open since the very first day. Following the acquisition in January 2016, an open email was floated to all of the employees of Alcatel where it was communicated to them that the merger between Nokia and Alcatel-Lucent was a synergy of their capabilities, technologies and markets. They were intimated that the merger entity was intended as a strong contender in the evolving telecom landscape. The employees were also provided an insight in terms of future goals and targets so as to keep them motivated.

In the aftermath of acquisition, meetings were arranged with the top 200 executives of the company and the minutes of meeting were floated among the employees so as to keep them in loop. The meetings with Nokia were also communicated to the employees at lower end and the demand of Nokia for cost reduction and operational efficiency were also communicated to the employees. An online blog was created, which was in-turn integrated with the official website of Alcatel. The blog was occasionally updated to keep the stakeholders in loop with the developing changes in the organizational functions and culture. It was the core responsibility of the departmental heads to communicate the developments to his subordinates. However, the support departments were developed to streamline the process of change management. The concerned departments which directly managed the impact of change in the organization were cultural department, legal department, financial department, organizational development department and the department of human resource management. The departments got together to lay down the

guidelines for the change process and to compile the policies and procedures which would be finalized by the end of December, 2016.

Following the merger with Nokia, Alcatel made attempts to provide proper Ethical and Compliance trainings to the employees so as to inculcate the values of ethical conduct in the employees. Although, Alcatel made sufficient attempts to provide proper visibility to the employees, the employees remained skeptical of the intentions of Nokia. Both Nokia and Alcatel are project based companies where the summation of a project is either followed by resource leveling through international mobility or the project team is fired, provided there is no need for the resource again. Before the merger, the instances of resource firing were minimal, but now employees at Alcatel are of the perception that if anyone would have to leave the organization, it would be the workers from Alcatel, instead of the workers from Nokia.

Leadership:

The employees at Alcatel Lucent resisted the change in leadership when the acquisition announced that the CEO of Nokia would be retained, whereas, the CEO of Alcatel Lucent would have to bid farewell to the company. For the employees at Alcatel, Combes was a visionary leader who was not only flexible in his conduct but as per his employees "*he focused more on solutions rather than fixating on the problems*". The \$15 million inventory loss at the post-acquisition Alcatel was followed by the firing of the responsible employees, whereas, in the past, the past the CEO would be less rigid and more supporting. The change in attitudes were perceived as a threat by the employees at Alcatel, who were used to of an open American driven culture, whereas the captivator from Finland had little in common with the flexible leading style of French-American company. The employees at Alcatel were in a cultural-shift dilemma, where they found themselves lost at times.

Employee Behaviour

Alacatel Lucent has been facing a dilemma which many organizations face in their transition phase and the way they would deal with it would set the foundations for the success or failure of the company in the years to come (William, 1995). Although it has been established that Alcatel and Nokia would get together to devise operational laws and policies by the end of year 2016; it is yet unclear as to where the organization is heading. The employees' reaction to the acquisition has been predictable since the acquisitions are more horrendous than the mergers, which are subtle and let an organization retain their organizational culture.

An acquisition sends a subtle signal to the employees of Alcatel that they have been evaded by an outside entity, which perhaps would eventually change the way the organization would work. As for now, the employees at Alcatel know that in the near future, they would have to follow the culture of Nokia since they have been taken over by them. The employees at Alcatel are also aware of the fact that the current acquisition has created redundant positions in the organization where the circumstances suggest that the acquirer would have an edge over the acquiree and hence the situation has created a sense of job insecurity among the old employees of Alcatel. Instances of political behavior have been reported which included lobbying and instances of passive aggression.

The employees at Alcatel are of the view that their counterparts from Nokia would be preferred over them in case of any downsizing, despite repeated assurances from the HR department that the decision would be purely based on employee performance. Moreover, these disgruntled employees are looking for jobs elsewhere and are working half-heartedly in the company. The instances of complaining, intentional mistakes and procrastination have also been reported following the acquisition. Some of the employees, who would complete the task on hand quickly in the past, now take relatively longer since the employee motivation to work has declined. The turnover is observable but not increasing at an alarming rate since the employees are waiting for the organization to hand them over exit notices, which would be followed by handsome service packages, which otherwise would not be offered by the organization, in case the employees leave the organization themselves. The breach of psychological contract between the company and its employees have now become evident since for the employees, the change has been intense which has led them to work in self interest rather for the achievement of organizational goals.

People at Alcatel have been resisting the change by defending the status quo since they are apprehensive of the rigid mentality of Nokia which have been indicating the Lucent group that they have been “captivated”. The employees at Alcatel have hinted that their reward policies were much better than Nokia. The bonuses in the pre-acquisition period were also more handsome.

MANAGING CHANGE: A FUTURE HORIZON

Although the need and agenda for the change has been clearly laid down and is communicated to the employees, the employees are not satisfied with the change since their participation and involvement in change process have been kept to minimum. The rigid Nokia has little in common with flexible Alcatel and the blending in of two cultures seems unlikely at such an early stage of acquisition. Nokia is unclear as to how to proceed with this merger. It is uncertain about the facilitation and support programs it should provide to the employees at Alcatel to make them feel part of the organization. As for now, the explicit coercion seems to be the strategy adopted by Nokia, where it has exclusively made it clear that the need for cost reduction requires turnover for which the employees for Alcatel seems to be most likely candidates. With the telecommunication infrastructure rapidly changing and the highly radicalized internal environment of the new conglomerate, the fate of the company is yet undecided.

EXHIBIT 1: ALCATEL-LUCENT GLOBAL LOCATIONS (as of 2009)

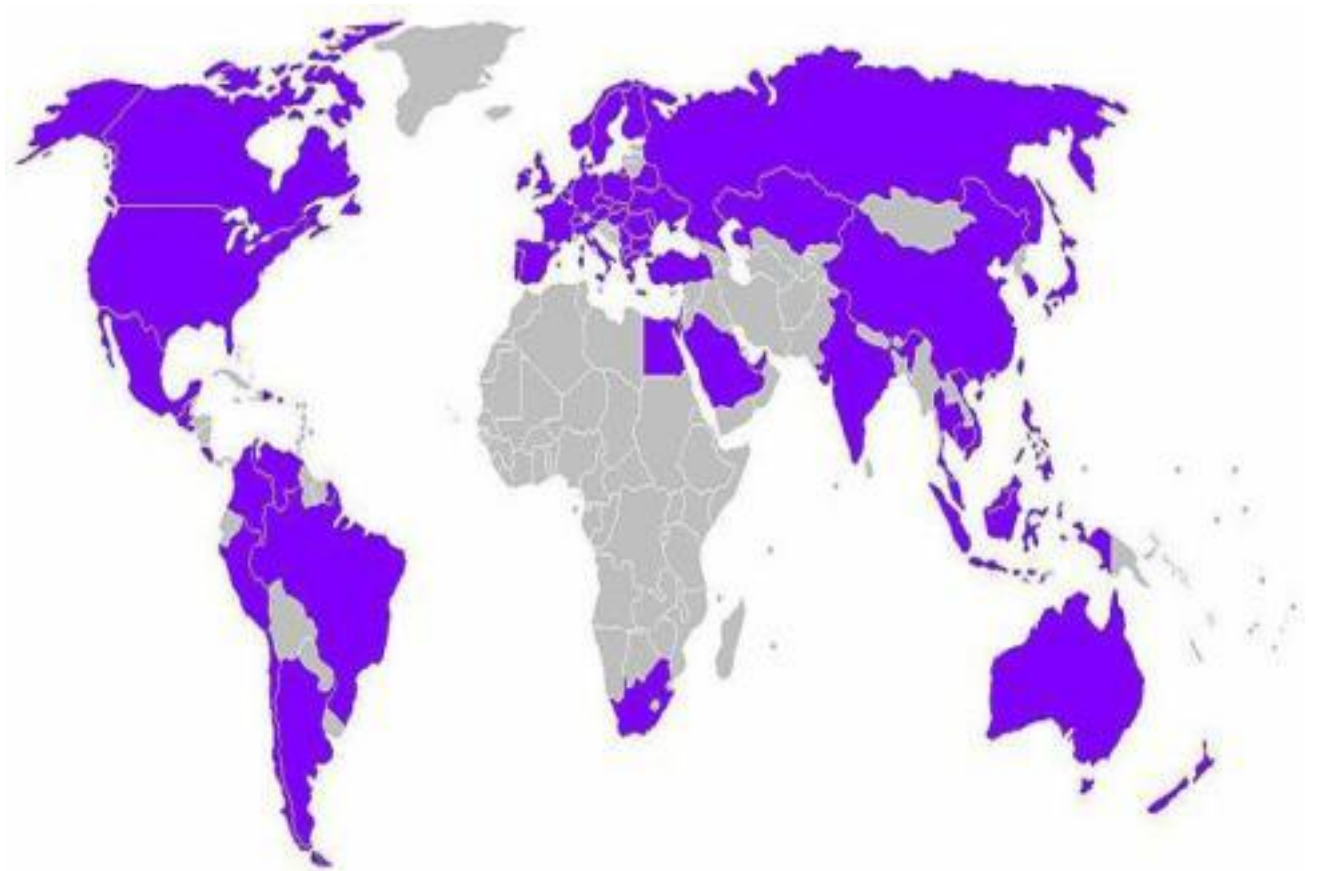


EXHIBIT 2: ALCATEL-LUCENT TIME LINE

- 2006 –Merger of Alcatel and Lucent. Alcatel-Lucent is formed. Alcatel Lucent acquires Nortel's UMTS radio access business.
- 2007 –acquisition of Tropic Networks, NetDevices, Thompson Advisory Group, and Tamblin by Alcatel-Lucent
- 2008 –Motive Inc’s acquisition by Alcatel-Lucent and Ben Verwaayen became the second CEO of Alcatel-Lucent.
- 2009 – The remaining shares of Thales were sold and its Information Technology was outsourced to HP.
- 2011 – Wim Sweldens leads a wireless group to develop lightRadio, a technology to reduce the size of cell towers to tiny cubes.
- 2012 - Genesys Labs was sold to Permira by Alcatel-Lucent
- 2015 –Announcement by Nokia Corporation to acquire Alcatel Lucent for \$16.6 billion
- 2016 - Nokia gained control of Alcatel-Lucent. As of March 16, Nokia held a 91.8 percent stake in Alcatel-Lucent's total shares, and plans to complete the purchase of 100% by 26 April

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