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The role of HR managers in international mergers and acquisitions: a multiple case study

Elina M. Antila

Abstract In recent years human resource (HR) managers have been encouraged to play a more strategic role in their organizations, especially in the case of extensive organizational change processes such as international mergers and acquisitions (IM&As). Today this requirement is even more acute since the past decade has been characterized by enormous growth in IM&As. In addition, it has been argued that the challenge in making M&As work is the management of people. In a case of IM&As the role of HR managers is very demanding because they need to integrate HR practices and, moreover, perform two other roles simultaneously: a strategic role for company-wide integration and a support role for business unit transaction. Considering the importance of human resource management (HRM) in IM&As, it is surprising how little is known about the role and activities of HR managers in these processes. This study addresses the existing research gap by investigating the role of HR managers in the IM&A process. Based on semi-structured theme interviews among corporate level managers in three Finnish international industrial organizations, the roles of corporate HR managers at different stages of the IM&A process are analysed. This study applies Ulrich's (1997) theory of the four HR roles in combination with the HR issues which are present at the different stages of the IM&A process. This paper demonstrates that HRM is an essential part of M&As and that HR issues are given a lot of emphasis throughout the process. In addition, HR managers play an important role in the IM&A process, although it is not self-evident in every case.

Keywords HRM; HR roles; mergers and acquisitions.

Introduction

In recent years human resource (HR) managers have been exhorted to play a more strategic role in their organizations, particularly in the case of extensive organizational changes such as international mergers and acquisitions (IM&As) (Björkman and Soderberg, 2003). Today this requirement is even more acute since the past decade has been characterized by enormous growth in IM&As. It has also been argued that the challenge in making IM&As work is the management of people (see, e.g., Buono and Bowdich, 1998; Clemente and Greenspan, 2003; Napier, 1989; Schuler and Jackson, 2001; Stahl *et al.*, 2003). The role of HR is very demanding because HR needs to integrate its own practices and, moreover, needs to perform two other roles simultaneously; a strategic role for company-wide integration and a support role for business unit transaction (Galpin and Herndon, 2000). Considering the importance

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of human resource management (HRM) in IM&As, it is surprising how little is known about the role and activities of HR managers in these processes.

The first studies of HRM in M&As focused mostly on the implementation and outcome of the transaction (see, e.g., Bastien, 1987; Marks and Mirvis, 1985; Sinetar, 1981) such as the reactions and feelings of employees and managers in mergers and acquisitions (see, e.g., Buono and Bowditch, 1989, 1990; Cartwright and Cooper, 1990, 1992, 1993; Fried *et al.*, 1996; Greenwood *et al.*, 1994; Hambrik and Cannella, 1993; Napier *et al.*, 1989; Schweiger and DeNisi, 1991; Schweiger and Ivancevich, 1987). A common understanding in these studies has been that HR issues receive too little attention, are unmanaged and neglected thus seriously affecting the success of M&As.

In recent years, studies have addressed the application of HR issues in the M&A process (see, e.g., Ashkenas *et al.*, 1998; Buono and Bowditch, 1989; Cartwright and Cooper, 1992; Evans *et al.*, 2002; Galpin and Herndon, 2000; Hunt and Downing, 1990; Marks and Mirvis, 1998; Schuler and Jackson, 2001; Schweiger, 2002). These studies suggest guidelines for the sound management of HR in M&As, but nevertheless remain theoretical and consultative in nature and based on single case examples. The research needs to understand more fully the degree to which HR managers become involved in the M&A process and roles they play in different phases of the M&A process; in strategic decision making, in due diligence, in integration and in post-integration. Analysing HR issues throughout the M&A process, not just the outcomes, is essential since attention to the rationale behind the decision to merge or acquire, to integration planning and to due diligence takes place before integration and forms the basis of a successful deal (Jeris *et al.*, 2002).

This study seeks to address the existing research gap by investigating the role of HR managers in the IM&A process. IM&As are defined here as those involving two companies whose headquarters are located in different home countries (Shimizu *et al.*, forthcoming). Though the dynamics of international and domestic M&As are largely similar due to the increasingly international nature of business, IM&As do involve some unique challenges (*ibid.*). In IM&As the companies involved face the challenges of foreign language, culture, law and socioeconomic conditions (Schweiger and Goulet, 2000). Based on semi-structured theme interviews among corporate level managers in three Finnish international industrial organizations, the roles of corporate HR managers at different stages of the IM&A process are analysed. This study applies Ulrich's (1997) theory of the four HR roles in combination with the HR issues that are present at the different stages of the IM&A process. This paper demonstrates that HRM is an essential part of IM&As and that HR issues are given a lot of emphasis throughout the process. In addition, HR managers play an important role in the IM&A process, although it is not self-evident in every case.

The roles of HR managers

In the past decade, discussion concerning the role of the HR function and of HR managers has been very active. Scholars have suggested various classifications of the roles of HR in companies (see, e.g., Evans *et al.*, 2002; Legge, 1989; Rowden, 1999; Schuler, 1990; Scullion and Starkey, 2000; Storey, 1995; Tyson, 1995; Wright *et al.*, 2001). Probably the most widely acknowledged classification, which is also applied in this study, is Ulrich's (1997) definition of the four HR roles, namely *Strategic Partner*, *Administrative Expert*, *Employee Champion* and *Change Agent*. The framework by Ulrich is based on two dimensions. The first axis illustrates the focus on future/strategic issues versus day-to-day/operational issues. The second axis describes the focus on

Table 1 *The roles of HR function and HR issues in the IM&A process*

<i>Role (Ulrich, 1997)</i>	<i>Pre-combination</i>	<i>Combination and integration HR issues in international merger and acquisition process (Schuler and Jackson, 2001)</i>	<i>Solidification and assessment</i>
Management of strategic human resources	–identifying reasons for the IM&A, ⁽⁵⁾ –searching potential partner, ⁽⁵⁾ –selecting a partner, ⁽⁵⁾	–creating new strategies, ⁽⁵⁾ –communicating to and involving stakeholders.	–assessing new strategies, –assessing stakeholders, –revising as needed, –learning from the process,
<i>Strategic Partner</i>	–planning for managing the process of the IM or A, –planning to learn from the process.		– <i>monitoring the success of the Integration.</i> * ⁽⁶⁾
Management of firm infrastructure	–forming IM&A team/leader, –HR due diligence, ^(2, 4) ; *company profile,	–designing/implementing teams, ⁽⁵⁾ –creating new structure, –deciding on the HR policies and Practice.	–solidifying staffing, –assessing new structure, ⁽⁵⁾ –assessing new HRM policies and practices, ⁽⁵⁾ –revising as needed, –learning from the process.
<i>Administrative Expert</i>	*compensation audit, *benefits audit.		–assessing employees, –solidifying leadership, –revising as needed, –learning from the process.
Management of employee contribution	–communication, ^(1,6) –HR due diligence, *management audit, ^(2, 3, 5, 6) *employee audit, ^(2, 3, 5, 6) *culture audit, ^(5,6)	–selecting the integration manager, ⁽¹⁾ –creating new leadership, –retaining key employees, ⁽⁵⁾ –motivating the employees, ⁽⁵⁾ –communicating to and involving ⁽⁵⁾ employees, – <i>managing the sense of loss and respect for employees,</i> * ⁽³⁾ – <i>managing uncertainty and stress.</i> * ^(5, 6)	
<i>Employee Champion</i>	– <i>understand and content with the first phases of psychological effects.</i> * ^(5, 6)		

Table 1 (Continued)

<i>Role (Ulrich, 1997)</i>	<i>Pre-combination</i>	<i>Combination and integration HR issues in international merger and acquisition process (Schuler and Jackson, 2001)</i>	<i>Solidification and assessment</i>
Management of transformation and change	<i>–integration preparation, * ^(1, 5, 6)</i> <i>–begin cultural assessment, * ⁽¹⁾</i> <i>–identify business/cultural barriers to integration success. * ⁽¹⁾</i>	<i>–managing the change process, ⁽⁵⁾</i> <i>–integrating cultures. * ⁽⁵⁾</i>	<i>–learning from the process,</i> <i>–assessing new culture. ⁽⁵⁾</i>
<i>Change Agent</i>			

Source: Antila (2005)

Notes:

Issues addressed also by: 1) Ashkenas *et al.* (1998); 2) Hunt and Dowling (1990); 3) Buono and Bowdich (1989); 4) Evans *et al.* (2002); 5) Marks and Mirvis (1998); 6) Cartwright and Cooper (1992).

* Issues applied from other studies.

process versus people. In these four roles the HR function is responsible for the management of strategic HR issues (*Strategic Partner*), the management of the firm's infrastructure (*Administrative Expert*), the management of employee contribution (*Employee Champion*) and the management of transformation and change (*Change Agent*). The roles of strategic partner and change agent are strategic in nature.

With regard to these HR roles, it is pertinent to notice that the roles can vary at different levels of organization (Hope-Hailey *et al.*, 1997). According to Storey (1995), when the HR function is supposed to be more strategic, line managers have more responsibility for people management on a daily basis. Furthermore, according to Jacoby *et al.* (2005) the role of senior HR managers is to work closely with the CEO on strategic decisions such as mergers and acquisitions (see also Scullion and Starkey, 2000). However, what needs to be realized is that the HR managers' ability to make strategic contributions is contingent on expertise in operational matters (Truss *et al.*, 2002) and their capacity to operate as HR generalists rather than HR specialists (Schuler and Jackson, 2005).

According to the role theory approach (Katz and Kahn, 1978) organizations are open systems of roles in which each individual and group has its own role that is connected to the other roles played by other individuals. Roles are formed in role episodes. This means that the roles played by an individual are based on how an individual sees his/her own role, but also how other members in organization see it. According to Truss *et al.* (2002) the roles in organizations are maintained, at least in part, by the sets of role expectations held by other organizational members concerning what individuals or departments need to do in order to fulfil their roles effectively. This means that HR managers should perform well against the expectations of their roles in organizations in general and in the case of M&As. Furthermore, if HR managers want to change their role in an organization, a change in the expectations of the role-set members is also required (*ibid.*).

In addition to the social construct of roles, HR managers themselves need to be aware of their roles. The members of the HR department are not just passive recipients of role expectations, but can engage actively in processes to alter the nature of their role. In order to be more strategic, HR managers themselves have to realize that the change is desirable. It has been argued that there are two kinds of HR managers; type A and B (Truss *et al.*, 2002). Type A HR managers have power in their organizations and see themselves as business managers and strategic partners. Type B HR managers, on the other hand, are focused on their own area of speciality and are more traditional in their approach. Achieving the more strategic role can therefore be expected to be much more difficult for the more administrative type B manager.

The roles of HR managers in IM&As

In the case of a merger or acquisition the four roles of HR are present throughout the process. According to Antila (2005) there are several HR issues that illustrate the roles of strategic partner, administrative expert, employee champion and change agent in an IM&A process. In Table 1, the HR issues in IM&As presented by Schuler and Jackson (2001) and other authors have been divided into the four roles (Ulrich, 1997) played out by the HR managers. As the table shows, all the four roles are present but are subject to different degrees of emphasis depending on the phase of the IM&A process.

The role of strategic partner includes HR issues that relate to HR and M&A strategy, M&A process planning and evaluation. The role of strategic partner is strongly present in pre-combination and again in solidification and assessment, but is less present in the integration stage. In every stage the roles of administrative expert and employee

champion are strongly present. These roles include concrete HR tasks, for example HR due diligence, implementation of HR practices, recruitment and communication. The other strategic role, namely the role of change agent, is not as strong as the other roles. This might be the case since the responsibility for management of the integration change process is typically allocated at many organizational levels. In this role, HR is responsible for integration preparation, identification of integration barriers and integration management.

One of the traditional areas of human resource management in the international context is the area of employment law and labour relations (Briscoe and Schuler, 2004). Even though there are only a limited amount of employment regulations developed globally, every firm that operates in the global economy faces the varying employment laws and industrial relations in the countries in which they operate. These foreign laws and practices can differ greatly from what the companies are familiar with at home. Workers are not simply passive factors (Chapman, 2003) and through an organized labour union employees can have strong power, sometimes even across international boundaries (Herod, 2000). Considering the importance of this administrative task of HR departments, it is surprising that in previous literature on HRM in M&As the issue of labour unions is hardly addressed.

As presented in Table 1, the HR function has an essential role throughout the IM&A process, however it has been argued that HR managers are not active in M&A strategy formulation (Björkman and Soderberg, 2003; Clemente and Greenspan, 2000; Jeris *et al.*, 2002). According to Clemente and Greenspan's domestic consulting survey among HR managers, less than 40 per cent of the respondents stated that they were involved in acquisition strategy planning or screening a target company. Also, the findings of Jeris *et al.* (2002) show that human resource development (HRD) expertise was counted on for acquisition implementation, but not in actual strategic decision making. However, according to the study it was clear that the expert input from HRD was essential as soon as the decisions were made. In addition, the lesson learned indicated that a broader more strategic HRD role would serve to help manage the transaction, communication and integration process critical to the success of a merger or acquisition. The findings by Björkman and Soderberg (2003) are in line with the other previous studies. Indeed, their in-depth case study of Nordea bank's post-merger integration reveals typical problems in organizing and managing HR issues and illustrates how the HR function is easily given non-strategic roles in these processes. The results of the study show that in the initial post-merger period the emphasis of the HR function was clearly on administrative HRM policies and procedures, rather than on strategic or change management. A surprising finding in their study is that the traditional role of employee champion also seemed to be missing.

Previous studies address the issue of HR managers' limited role and involvement, but are based on domestic M&As (Clemente and Greenspan, 2000; Jeris *et al.*, 2002) and only analyse post-merger integration (Björkman and Soderberg, 2003). The present study expands on this perspective by exploring the roles of HR managers at different stages of the international M&A process, namely in pre-combination, integration and post-integration. Data are collected among corporate level management and a multiple case study approach is applied.

Methodology

Merriam (1998) proposes that qualitative research provides an understanding of the social event from the participant's view, utilizes the researcher as the instrument of data

collection, and involves fieldwork and results in a richly descriptive product. Furthermore, the qualitative research method possesses a greater ability to investigate contexts and to deal with a variety of evidence (Miles and Huberman, 1994). According to Orum *et al.* (1991), a case study is an in-depth, multifaceted investigation using qualitative research methods of a single social phenomenon. The case study design is also normally employed to gain understanding and meaning from a given phenomenon, rather than to test a certain set of variables (Merriam, 1998). The case study approach was selected here because it is particularly useful when research is focused on understanding process (Merriam, 1998; Zalan and Lewis, 2004). This study adopts a holistic multiple case study approach (Yin, 2003) which is justified by three factors. First, the research question – (1) What are the roles of HR managers at different stages of the IM&A process? – is exploratory and descriptive in nature, which supports the use of the case study method. Second, the phenomenon under study is still quite new and unstructured and, therefore, cannot be adequately measured (Bonoma, 1985). Third, the main constraint of the present study has been the access to case companies (Bonoma, 1985), since the interviewees present the corporate elite (Welch *et al.*, 2002). In terms of a research sample, a case study approach usually relies on one of a few cases. As mentioned, the present study adopts a multiple case design, because it is regarded to be more compelling (Eisenhardt, 1991; Yin, 2003).

The study was conducted among three Finnish international industrial companies. The sample was chosen to include companies that have business and employees in several countries and who in recent years have expanded their business through international mergers or acquisitions or both. Case company A has business operations worldwide and it employs 19,000 people in more than 40 countries. Case company B is an international firm that operates in several countries within Scandinavia, Eastern Europe and Eurasia. Today it employs nearly 27,000 people. Case company C has business activities in several countries in the Baltic area and employs 13,300 people.

Data were collected through semi-structured theme interviews by inviting the interviewees to talk about their work on acquisitions with which they have been involved (see Appendix 1). In every company the Senior Vice President of HR was interviewed in addition to one other HR Manager. Corporate-level HR managers were chosen since they work with the CEO on strategic decisions such as IM&As (Jacoby *et al.*, 2005). Although the present study mainly focuses on the self-perceptions of HR managers, in order to attain an in-depth and holistic understanding of the HR manager's role in IM&As a corporate-level manager from legal affairs and a member of another function – in Company A a business controller, in Company B a strategist and in Company C a chief financial officer (CFO) – were interviewed. These corporate level managers were chosen since they represent the departments that have a primary role in the M&A process such as accounting, legal affairs and corporate strategy. In total, 12 separate interviews were conducted (Huber and Power, 1985) between October 2003 and May 2004.

The interviews lasted from 45 minutes to an hour and a half. The interviews were first tape recorded and later transcribed. Transcribed interviews were sent back to the respondents as an e-mail attachment in order to increase the quality of the data. The interviewees were asked to comment and complement the text wherever necessary. The interview transcripts, each about 13 pages of written data, formed the raw data for subsequent analysis. In the present study the data analysis began with a thorough reading of the interview reports section by section, one case at the time in order to establish an overall picture. After careful reading, the data were coded case by case. By coding, the data were given a clearer structure in order to be able to draw conclusions and was achieved by applying a linear-analytic structure (Yin, 2003).

Yin (2003) suggests that, as with the quality of any empirical social research, four tests can be used to establish the quality of case studies. These tests are: (1) construct, validity; (2) internal validity; (3) external validity; and (4) reliability. Test two is only a concern for causal case studies and is not relevant in this study. In this research construct, validity was strengthened by the use of multiple sources of information by interviewing other managers besides HR managers (triangulation) (Pauwels and Matthyssens, 2004), by establishing a chain of evidence, and by having the interviewees review and comment on the transcripts for factual verification. External validity was verified by using replication logic in multiple case studies (Yin, 2003). To add to the study's reliability, the research process has been documented in this paragraph and a case study database was also created. However, there are some limitations.

First, the use of a case study methodology means that the results may lack wider generalizability. Second, the interviewees are all in corporate-level management positions and present the perspectives of acquirer companies. Organizational perspectives from companies other than acquirer companies have not been included in this study. Third, this study examines the phenomenon at the corporate level. Therefore, line managers were excluded from the study. Finally, the interviewees were invited to talk about their work in acquisitions in which they have been involved on a general level meaning that no specific transaction was studied. The following section presents the empirical results case by case. The analyses are divided into three sections based on the phases of the M&A process (pre-combination, integration and post-integration). In each phase the four HR roles are analysed through the HR issues that manifest themselves at different phases of the M&A process.

Case study one

Pre-combination

The Senior Vice President (SVP) of corporate HR in Company A says that his experiences of acquisitions are diverse. As an SVP of HR he has participated in several transactions, but he says that his involvement has not been self-evident. 'Usually my involvement has started at the stage of due diligence. At this point no decisions have been made, but the so-called first impression exists already. These are cases that concern hundreds of people. Maybe the cases that I have not participated in have been smaller, like less than one hundred employees.'

Usually the assignment for HR has been very general. According to the SVP of HR: 'In most cases the legal department sets some kind of framework also for HR, what they need us to do. In practice I have built a kind of checklist of the HR issues I follow during the due diligence. I divide HR management into smaller parts and look how they are managed in a target organization [recruitment, compensation, etc].'

In the due diligence process, legal affairs is interested in the so-called 'hard' HR issues, as a counsellor from legal affair summarized: 'HR has a big responsibility in due diligence. They analyse the pension agreements, salaries and bonuses, management agreements, etc.' For HR these analyses are barely enough. The SVP of HR of Company A states that: 'If I spend my time on pension agreements, etc. I do not add the kind of value to the process that I could with my expertise. I have to reach the kind of world, an intangible world where all things can't be measured in money. That way I can get a feeling for whether this could be a successful deal or not.' The SVP of HR says that he always works from the general management rather than from the HR perspective. For him the core question is: 'How are HR management practices related to the target organization's strategy? Is there a connection and how does it work?'

As mentioned earlier, the SVP of HR in Company A analyses the target company's HR with regards to all its functions. In a so-called HR audit the target company's HR processes are analysed during the due diligence phase. Personnel structure and costs as well as HRM practices like recruitment, assessment, compensation, training and development, and communication are all analysed and then compared to Company A's own practices. Employees' health and safety issues as well as industrial relations are critical since these can have direct financial effects if, for example, there are some legal claims or if layoffs are going to be very difficult. A very sensitive issue is the target company's management resources, because their motivation towards acquisitions and their commitment is essential in the integration phase. In addition, the future of HR issues in a target company is analysed, upon which the HR strategy can be determined. This analysis clearly manifests the strong administrative and employee-related roles of HR. However the strategic role is also present.

Although the SVP of HR tries to capture the essence of HR issues and also to touch upon the intangible world, there is no model for cultural due diligence in Company A. According to another HR Manager, the company analyse and discuss these soft cultural issues more than before, but they still do not have any specific framework for cultural analyses. She says that 'When the negotiations are initiated these [cultural] issues are discussed at management level, but it is not considered so much how a certain culture fits into our own . . . This can be quite a strong statement, but if business synergies and other benefits are strong then cultural integration is just done and made to happen.' However, according to a counsellor from legal affairs, cultural differences are problematic: 'I have had an experience where the cultures and management styles in two countries were so different that it took years to overcome.'

Integration

Integration starts officially when the transaction is announced. However, according to the SVP of HR of Company A, from an HR point of view the line between due diligence and integration is quite artificial. He says that: 'When the due diligence process itself has been well conducted, it is already like integration in a way. However, if due diligence has been badly conducted or ignored . . . then integration starts with the work that should have been done already.'

The integration phase begins with the intensive work together with the target company's HR people, when the HR policies and processes of two companies are joined. According to Company A's HR Manager: 'After the deal is closed we discuss with the target company's HR people and work out how we can integrate the two different cultures . . . we inform who we are and how we work . . . what our company values are, not just in HR, but in general . . . We further analyse the target company's resources and consult and help them [target organization's HR people] with what they need and give information. Of course we try to commit people and integrate the new culture by inviting them [new employees] to join our training programmes.' By consulting the target organization HR managers, they act as a change agents and contribute to the integration process.

During integration, the recruitment of people is one employee-related task. From the employees' perspective, the sooner they know their new positions the better. 'The key people are identified before integration. Then [in integration] our [HR managers'] task is to recruit people from within and outside the company to the right positions. This usually happens very fast' (HR Manager, Company A).

Post-integration

Post-integration is the phase where the acquisition process is evaluated and the new entity is solidified. According to the SVP of HR, the line between integration and post-integration is even more difficult to determine than the line between due-diligence and integration. 'The point where integration really ends is just a technical verification. At that point it is acceptable that there will be more expenses than synergies from the transaction, but after the integration process is ended it can be assumed that it is business as usual.' For HR managers the work in post-integration is still more or less integration management. When the new entity has past the first strategy process then it can be said that integration has been completed.

The HR Manager in Company A feels the same way: 'Usually we have a set date when the integration is to be completed, but in practice the same work continues and also mine as an HR manager stays quite the same.' In a best-case scenario, after integration the people from both organizations know each other, and the people from the new entity know the systems and contact persons and can work more independently.

From the HR point of view, the evaluation of the outcome is related to the everyday work. The HR Manager states: 'From the HR point of view the success factor is the good assessment of people. Many mistakes are made if people are placed in wrong positions and not enough attention is given to teams, etc. . . . ' Management issues significantly affect the success of the transaction. In Company A job satisfaction is sometimes measured before and after the integration and that gives information about how employees have experienced the changes. However this is not an established procedure.

In Company A they do not have any standard systems to measure HR outcomes from acquisitions. According to the SVP of HR 'I have never used those kind of measures that would specifically measure the success of HR. Usually we observe consistency [of the new entity] and financial performance . . . The evaluation depends on the time frame. After a year the result is different than after five years. It is a common belief that most acquisitions will fail, but I believe it is also a question of time frame. There is always a risk factor related to acquisitions, like in business in general.'

Company A has acquired many firms during the past ten years. According to a counsellor at legal affairs:

We have made so many acquisitions that the transaction itself and the preparation we know how to do. But after the deal has been signed and firms change ownership there is a place for us to work further. It is the phase where the motivation kind of ends and some things create tensions, already due to a lack of time. However, we have talked about it, that in the future we should somehow improve the situation.' In addition she gives credit to the HR managers in Company A 'I have never seen that HR has not been involved at all or the HR *issues have been totally ignored. HR is involved and always tries to find the best solutions.*

Case study two

Pre-combination

The SVP of corporate HR in Company B has plenty of experience in HR issues during M&As. Business transactions have been a vital part of his work for almost 20 years. He says that HR involvement in the pre-combination phase is not definite:

I have experienced [in one acquisition, when someone told me that] today the deal will be announced . . . are there some HR issues . . . can you come to the press conference? Those are dreadful experiences. The best experiences are the kind of projects where I have been involved

from early on, when it has been just a discussion of what kind of merger or acquisition would fit into our business strategy or business culture.

Being involved in target selection, HR is truly a strategic partner. However, there are often good reasons why HR is not involved. Sometimes the buyer sets the rules and the deadlines are so tight that there is no time for HR analyses. Furthermore, the project leader can have too little experience, and he or she doesn't realize that there could be some HR issues to consider. Fortunately, the more people that are involved in M&A projects the better they understand the HR issues.

At the pre-combination stage, the responsibility of HR managers is to analyse what kind of business culture the target company has. When HR managers are familiar with their own corporate culture they are able to compare that with the culture in the target company. According to a SVP of HR:

We also use external consultants when analysing the strengths and weaknesses that can predict the success or failure of the deal. Unfortunately, this kind of information is often quite hard to get before a letter of intent is signed. These [soft] issues are established by interviewing people [in the target company] if that is possible. Often ... networks are a very good source of information, to talk with someone who knows the target firm and the people there. This kind of information is useful, but I need to make sure that it is accurate. Job satisfaction surveys are always a good source of information and tell us a lot about the target company.

According to the SVP of HR they have a checklist of HR issues they analyse in a due diligence:

We analyse the hard financial stuff like agreements and commitments, what is the cost structure of personnel, what kind of people are working in the target company; age, educational background and knowledge. We also try to analyse employees' competencies, are the personnel willing to develop and what their motivation is, is there resistance.

All documentation about the target firm's change processes that have been carried out in the past is valuable information. 'Ability to change correlates strongly with how often changes have been made ... that the employees learn, they gain more knowledge and they are used to change ... that way [change processes] are also easier in the future.' In the due diligence process the administrative and employee roles of HR are strongly present. A counsellor from legal affairs says that he has good experiences of the work of HR: 'In this company the HR department is really a house of full service, they take care of almost all employee-related things.'

As stated, during a due diligence there are many legally and financially related HR issues that are analysed. However, to an SVP of HR in Company B the most important thing is people:

I try to make sure [from early on] that the people who are going to be transferred [into a new firm] have a feeling throughout the process that someone is taking care of their affairs and that they are informed as to what is happening ... that the process is visible to them.

Integration

Integration planning takes place in the pre-combination phase. According to a SVP of HRR:

a common sin is that in pre-combination the deal is very well prepared ... but when the deal is announced ... the motivation drops. In [M&As] you have to keep in mind that there has to be strict plans for integration, day by day ... it has to be remembered that there are people who

are the target of the deal, they need to know what will happen to them . . . we need to give them answers.

Integration is mostly dialogue between the two companies. Before negotiating, the people responsible for the process are determined. These managers are then in charge of the HR integration negotiations with the target company. According to an HR Manager: 'First it is discussion with the [target organization] HR manager . . . after the complete picture has been identified, then issues like employee benefits and work agreements are analysed one by one with employees.' In their last merger, Company B used external consultants who could fairly evaluate employees of both companies, before they were selected to positions. 'External consultants performed impartially the evaluation of employee qualifications in both companies' (Manager from corporate strategy, Company B).

During integration, employees are usually transferred with old agreements, but in some cases they are changed during integration so that all employees in the new entity receive the same benefits. According to a manager from corporate strategy, in their last merger Company B wanted to encourage and support employees' mobility between countries inside the new entity: '[An] [i]mportant part of the integration was a sort of employment baggage to support employees' mobility.' Often in integration some employees are made redundant. 'We discuss with the union representatives and agree how to proceed. If an employee's agreement is ended he or she can have outplacement support' (SVP of HR, Company B).

In Company B, a communication plan is an integral part of the integration process. A SVP of HR describes:

During the integration process the employees are informed regularly, even when there is nothing new to tell. We explain that this was the situation yesterday and this is what will happen next. I believe it is important to have enough briefings among employees.

At the integration phase, HR managers in Company B also work as internal consultants (as a change agent) and help management with HR integration issues. The HR Manager recalls that: 'With management there are many kinds of legal issues that they need to know. We HR managers work like consultants and in that role we support line managers.' HR managers also work with managers who will have new subordinates. 'We tell managers about the integration process, what is expected of them and also what kind of support they can have from us, that managers have all the information needed when they receive the new employees.' HR managers also support top management in the selection of integration managers by giving a statement of the desired qualifications from an HR point of view.

Integration is a multi-faceted project that takes a lot of time and energy from everyone in the organization. The change process is intense and employees often feel insecure and in many cases employees' motivation might be hard to achieve. That is why management's commitment is very important. In Company B's last merger management demonstrated such commitment by offering them a substantial transaction bonus. That way the management of both companies were committed to working intensively towards integration objectives.

Post-integration

The line between integration and post-integration is often unclear. According to a SVP of HR:

You can't necessarily say when integration is completed. There are companies that have entered into acquisitions where after 20 years different organizational cultures still exist. And the less integration there is and the less people are mixed, the more difficult it is to build a new culture.

However, integration is a process that can be easily divided into sub-projects. In Company B they set the sub-goals for integration and follow them regularly. For the SVP of HR short-term goals work well: 'From my experience it is good to set goals so that it can be identified that this goal has been now achieved, to analyse it, and then move onto the next one. It is easier to work further when the achievements can be analysed during the process.' After the transition period is finished then the integration is complete.

In post-integration, the project can be evaluated based on the objectives set. From the HR point of view it is analysed – are all the managers in positions, are the employees' roles set and have the line managers been recruited. Employees' job-satisfaction surveys among the old and new employees inform how pleased they are with the integration management. These inquiries can be conducted monthly. This way the development of the employees' satisfaction can be followed up. The evaluation of the project in Company B is always public and the managers responsible know this. The experience of the surveys is that employees are usually very honest and give a lot of criticism. The SVP of HR says that:

In management we want to have honest feedback so we can learn and improve our process so that next time we can do better. If nothing happens, people notice that very quickly. When we publish the results of the survey, we also inform how we are going to improve the situation. Sometimes we can say that we have been very successful and nothing needs to be done, but usually it is the other way around.

Based on previous experiences in mergers and acquisitions, Company B's HR managers have been developing a process model for the sound management of the acquisition process. The purpose is for Company B to have a corporate model for the future management of acquisitions. The model has now been introduced to all HR managers in Company B. In the near future the model is going to be presented to the management boards and will eventually be implemented throughout the company.

Case study three

Pre-combination

In recent years strategic reasons for acquiring have been very clear in Company C. As the SVP of HR states: 'First comes always the business logic, everything else follows that . . . if the business logic is bad there is no way to save an acquisition.' The role of the SVP of HR is also strong and respected. Having had previous experience in M&As in his current position he has been involved in acquisition processes from early on. In these projects he says: 'I don't see my role or the role of HR managers in general ... that we are only responsible for HR issues, we are general managers. HR is our area of expertise . . . but I see that our role is more extensive.'

Careful planning is a fundamental issue in Company C's acquisition process. The purpose of the acquisition and the goals of the project are defined at the very beginning. The target company is selected on the basis of business strategy. When the target company has been identified the due diligence phase begins where the target company is analysed. From the HR point of view the task is to analyse administrative and employee-related HR issues, for example, the acquired employees' educational backgrounds and skills in order to know what kind of people are going to be acquired. HR-related issues also include compensation, pension and work contracts that can have negative financial effects.

From early on, the mapping and evaluation of the target company's key employees is started. 'We define the key people and keep them from walking out the door.' On the other hand, there are always people who are, unfortunately, not needed. Handling the

layoffs appropriately is a HR responsibility. A HR Manager from Company C recalls that in the last acquisition:

When I knew that there were going to be layoffs during integration both here in Finland and in the target country ... I started to work on the layoff process ... I found out what was the process in the target country ... I familiarized myself with the target country's labour unions ... I made a kind of basic study.

As mentioned earlier, employee-related contracts can have financial effects and that is why they are analysed carefully and it is decided who takes responsibility, either the acquirer or the acquired firm. In addition to these contracts there can be bigger HR-related risks, like a loss of competence and employees' motivation which can prevent the closing of the deal or achievement of the desired synergies. According to a SVP of HR: 'We always try to verify that there really is competence in a target company. We employ competent people. If they have a bad attitude and they are likely to leave there is no reason to buy.' Another critical factor is the motivation of the target company's top management. According to a manager of corporate legal affairs:

In my experience the attitude of the target company's top management has significant effects on the acquisition process, how it will go, how the post-integration is managed, and how the target is managed after the acquisition process is completed. This might be the most critical HR issue.

In acquisitions, companies usually seek synergies by integrating activities, often meaning that some people need to be made redundant. In a foreign country the labour legislation can be quite different than that of the company's home country. There are also cases where the target company has agreed with the labour union that there will be no layoffs or that the layoff compensations are considerable. According to the SVP of HR: 'When the reason for acquiring is the expected synergies ... and we learn that there are some agreements or legal issues which mean that layoffs are very difficult to carry out, then there is no reason to acquire.' In these situations the layoffs can be so costly that they will cut back the planned synergies. Cooperation with labour unions is, therefore, important, especially when the target company serves some political function.

Part of the pre-combination period is integration planning. According to the SVP of HR:

Integration planning starts ... from early on, even before any papers are signed, so that we already have some idea where we are going, what our goals are and what the main timetable is ... if I do not have anything on the table then it is difficult to proceed.

In Company C they have developed a very good model for integration planning that they apply systematically. They have a framework for integration planning that starts before the M&A is announced. In addition, integration management is systematic.

Integration

After the deal is closed the integration phase begins. 'The issue in integration for us is that there is a clear plan, integration plan and also communication plan, what to communicate, how to communicate and when to communicate' (HR Manager). During integration the role of HR changes from control to integration:

In integration we acquire people to work with us, we show them direction, keep them up to date, motivate, define the future, that we are going in the right direction, solidify the organization together with the organization and business management (SVP of HR).

Communication is a critical issue in integration. According to the SVP of HR: 'I have learned that I have to be able to answer three questions: me, me and me, what happens to me? To be able to specify the goals and communicate them, that is the main thing for me.' In their last acquisition, during the integration phase, Company C used external consultants to help them plan and carry out the communication process. They established intranet www-pages where the integration process was constantly updated in three languages, where all employees could access the information. The intranet pages have since been given a lot of credit. According to a HR Manager:

For my experience in acquisitions, communication is always a battle between employer and employees ... it is a battle between rumours and employer information ... openness and honesty are the key issues ... however, there are rules concerning information in stock exchange legislation.

In addition to corporate communication, a great responsibility for communication in acquisition process lies with line managers. In Company C, HR works closely with the communication department throughout the integration process.

Integration also signifies the creation of the new organization. In this respect, it is important to select the right people into the right places. The harmonious selection process is important and that is why in their last acquisition Company C used external recruitment consultants. According to an HR Manager: 'It was quite overwhelming [recruitment] that all applicants, even though they were not selected, were given feedback from the tests. This was especially the line managers' responsibility.'

During integration people are placed into new positions, but some of them are also made redundant. As mentioned earlier, redundancies can be complicated issues in a foreign country context. In Company C, during the last acquisition they had meetings with the labour unions' spokesmen during the integration process. In cooperation with them they negotiated and agreed the terms of layoffs and the compensation that was to be paid to those made redundant.

The integration of two companies also means the integration of two cultures, national and organizational. Culture can have a negative effect and it can complicate things especially if it is ignored at the beginning of the process. According to the SVP of HR:

I see that it can be as difficult to acquire in Finland or in China. When we assume that we know the culture [in home country] we don't expect that there would be differences. On the other hand, when we acquire into, e.g., China ... we are mentally prepared that it is a totally different thing.

Cultural integration is a process to combine and build something new. According to a CFO: 'I know that when you forget the old ... you have to think whether there is something new to bring in otherwise the change does not happen.'

In Company C, at the beginning of the acquisition process the responsibility for HR issues lies strongly at the corporate level. During the integration phase, HR managers are recruited into business units and the responsibility of everyday HR issues can be allocated there. During integration they communicate and cooperate with the target company's HR managers, since they have the expertise in the target company's HR policies. Also the role of HR is strategic in planning, but during due diligence and integration mostly administrative and employee-related. By managing the integration process HR acts as a change agent.

Post-integration

Integration is a period that has to end at some point as the SVP of HR says: 'We have an agreement beforehand as to what the purpose and goal of the integration are and when they are completed. After integration ends we do not talk about integration anymore, we talk about normal business development.'

After the integration is completed, the evaluation of the acquisition project starts. Analysis here focuses on what the goals were and how they were achieved. A critical approach is taken when evaluating the strengths and weaknesses of the project that something can be learned for future cases. According to the SVP of HR:

Often we may conduct a simple survey on how people were involved in a process and how they experienced it. And then a normal people satisfaction survey on employees, how they ... saw the project ... so that we can have information and opinions throughout the organization.

In their last acquisition, Company C established a HR-network where the actual HR issues were discussed. In this group, the central HR issues for the new organization were defined. According to a HR Manager: 'Today these central processes of human resource management are very similar throughout the organization and contribute the same results. I think they have been working very well.'

In Company C managers state that they have developed a good model for integration which can be applied to further acquisitions. They feel that they have learned from previous transactions and have been able to develop their process. According to a manager from legal affairs: 'I see that our competence has been in careful integration planning ... the planning has been systematic and professional.' Company C considers their last acquisition to have been very successful. A manager from legal affair states that: 'Even though we had to let a lot of people go we didn't get negative publicity. That says something.'

Discussion and conclusions

The aim of this study was to increase the understanding on the role of HR managers in different phases of the IM&A process. Based on this premise, the research question addressed was: What are the roles of HR managers at different stages of the IM&A process? As is presented in Table 1, during the various stages of the M&A process different HR issues manifest themselves into four corresponding roles for HR managers (Strategic Partner, Administrative Expert, Employee Champion, and Change Agent). It is argued in the previous literature that there is often a lack of a strategic role (e.g. Jeris *et al.*, 2002) and also the roles of employee champion and change agent of HR managers and the HR department in general (Björkman and Soderberg, 2003), in the case of an M&A. The present study does not entirely support this argument.

Strategic partner

The data from three case companies indicate that HR managers' involvement in acquisition strategy formulation and the selection of a target company was diverse, but not totally absent. The HR Managers from Companies A and B both had experiences of cases where they had been involved from early pre-combination, but also of cases where they had either been involved in integration or not at all. On the other hand, the HR Manager of Company C said that previously he had become involved in due diligence, but now in his current position he has joined the acquisition process from initial discussions. All the interviewed HR managers agree, however, that if HR is called into a project when the deal has already been announced it becomes a very difficult situation.

Despite the fact that early involvement is not self-evident, when the HR managers are involved in pre-combination they play a strategic role. The HR Manager of Company B stated that he had been involved in identifying reasons for acquisition and selecting a potential target company. Planning the acquisition process was part of the HR managers' work in every company and in the due diligence process, HR issues were also analysed from a strategy perspective.

In terms of integration, the role of HR managers changes from control and planning to integration. In that role HR managers support the M&A strategy implementation. They foster the implementation of the integration plan and direct the work of line managers and superiors. The strategic contribution of HR managers in integration lies in their ability to manage integration and develop links to the overall strategic direction.

After integration is completed and normal business is resumed the acquisition project is then evaluated. Although in every case company the measures of acquisition success were mostly financial they have all also analysed the outcomes from a HR point of view. All case companies have employed the use of employee satisfaction surveys. Companies B and C have analysed the previous acquisition process in order to learn and manage better next time. In case Company A the need for intensive evaluation was also realized. This evaluation of the acquisition process together with the learning perspective illustrates the strategic role of HR managers in the post-integration phase.

The present study argues that if HR managers are involved in the initial acquisition decision making then they also play a strategic role. However, it needs to be qualified that the strategic role is not self-evident or systematic and is absent in many cases. In case Companies B and C where HRM in the M&A process was more standardized, the strategic role of the HR manager was more apparent than in Company A. This relates to the importance of learning in the M&A process (see, e.g., Schuler and Jackson, 2001).

Employee champion and administrative expert

A previous study by Björkman and Soderberg (2003) illustrates that there is little evidence of the HR role as employee champion in the post-merger period. In this study, however, HR managers in all the case companies were responsible for many administrative and employee-related activities during the acquisitions process. The roles of employee champion and administrative expert were thus strongly present. In a due diligence the target company's HR practices and employees are analysed. In every case company the HR Managers have a framework for HR due diligence. Financially related HR issues such as different kinds of agreements and legal matters were standard in HR checklists. In addition, every HR manager revealed that they also try to analyse the 'soft' (i.e. employee- and culture-related) issues as much as possible. However, the companies did not have a standard framework for cultural due diligence. In many cases the 'soft' issues like culture can be very difficult to determine since the target company does not give any information or allow visits before the letter of intent is signed.

Furthermore, in the integration and post-integration phases the HR managers in three case companies took care of many tasks that represent their roles as administrative experts and employee champions. An interviewed HR Manager suggested that the work involved in integration comprises cooperation with the target company's HR people when the HR practices are integrated and employees are organized into new positions. They all also stated that communication with employees is one of their main responsibilities. After the integration project is officially completed, HR managers continue the integration of HR practices and policies in a new entity. All interviewed HR

managers felt that from the HR perspective the line between integration and post-integration is quite artificial and that the work does not change much.

With regards to the role of administrative expert, HR managers cooperate intensively with the target country's labour unions throughout the IM&A process. This is a task that all interviewees, particularly HR managers of Company C, emphasized in the interviews. It is interesting that in previous studies on HRM in M&As the importance of labour unions is hardly addressed (see Table 1). Indeed, workers are not simply passive factors (Chapman, 2003) and organized labour unions have strong power, sometimes even across international boundaries (Herod, 2000). Building a relationship with employee unions takes time, money and effort, but can pay off in trust and improved operations (Ladika, 2005). If ignored or mismanaged it can negatively affect the outcome of IM&As. According to this study it seems that cooperation with employee unions represents one of the most important tasks of HR managers in the IM&A process in which they really can deliver value.

Although it has been criticized in recent studies that the roles of administrative expert and employee champion are too dominating and that the strategic role should be stronger, the interviewed HR managers in this study generally viewed the administrative and employee-related roles in the acquisition process as being very important. They felt that they needed to take care of employees at every stage of the process and that line managers expected HR managers to provide their expertise. Also other interviewed managers addressed HR managers' administrative and employee-related responsibilities during the IM&A process. In addition, all the interviewed HR managers strongly emphasized HR managers' ability to act as general managers in the IM&A process and to view the whole entity above the HR function. This reflects the argument of previous studies (see, e.g., Barney and Wright, 1998; Kelly and Gennard, 1996; Rowden, 1999; Schuler and Jackson, (2005); Truss *et al.*, 2002).

Change agent

In the acquisition process, HR managers also play another strategic role, namely the role of a change agent, although the main responsibility for integration tasks lies strongly with line managers. The interviewed HR managers had all been involved in integration planning and implementation management. The HR manager from Company B informed that during integration HR managers act as consultants and help line managers to carry out the change process. The role of change agent is also related to post-integration follow up and learning from the process.

According to this study, HR managers' roles as administrative expert and employee champion are more dominant in the various phases of the IM&A process than the roles of strategic partner or change agent. The study, however, indicates that if HR managers are involved in M&A decision making from early on, they also command a strategic role within it. The role of change agent is the least visible, but this can be due to the fact that all the interviewed HR managers work at the top management level and the responsibility for change process implementation tasks lies mostly with line management. In previous studies it is argued that the HR issues are too often neglected (see, e.g., DeVoge and Shiraki, 2000). The present study does not support this view. In all three case companies HR issues are an essential part of M&A management and all the interviewees (regardless of their function) emphasized the importance of HRM. However, they also argued that HR issues should be the responsibility and concern of every manager involved in the IM&A, not just HR managers.

Based on the results it can be argued that even if HR managers do not have a strategic role in the IM&A process they still can add value. It seems that with early involvement

and good management of administrative and employee-related matters, that is to say operational issues, HR managers can make a difference. Many issues addressed in this study that manifest themselves in the roles of administrative expert and employee champion have an impact on the success of integration and can also determine the success of the IM&A as a whole. The study also shows that other managers value HR managers' expertise in these operational matters and see them as essential in the case of an IM&A. On the other hand, this could mean that other managers do not expect HR to be more strategic in IM&As (Truss *et al.*, 2002). However, the interviewed HR managers themselves value the strategic role and would like to be involved early on in M&A decision making. In addition, in case company C where the HR manager had a solid strategic role, his involvement in the IM&A decision-making process was also more of a policy than in other case companies. In addition to having a strategic role HR is able to act as a business partner linking HRM to the IM&A strategy from early on rather than being only a supportive administrative actor.

This study has increased our understanding of how the four roles of HR managers are present at different stages of the IM&A process and what HR issues manifest themselves in those roles. The results are, however, based on three case studies which constrain any kind of greater generalizability. Further empirical research is needed in order to structure the phenomenon on a comprehensive scale. Additional research is clearly needed on the roles of HR managers at the different levels of organizations, especially how these roles are formed and presented. Furthermore, what is the role of HR managers in the acquired company? How might their role differ to the HR role in the buying company? In addition, the question still remains as to how these different HR roles correlate with the success or failure of IM&As. And finally, what are the factors which explain the roles of HR managers in an IM&A context? Such questions merit further research.

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Appendix 1: Interview guide

Themes for HR managers:

- Background information about the interviewee.
- HR manager's involvement in international mergers and acquisitions.
- HR manager's work in international mergers and acquisitions, in pre-combination, integration and post-integration.
- What has been expected of HR manager in these projects?

Themes for other managers:

- Background information about the interviewee.
- Interviewee's experiences of international mergers and acquisitions.

- HR manager's involvement in international mergers and acquisitions.
- HR manager's work in international mergers and acquisitions.
- What are your expectations of HR managers in a case of international merger or acquisition?

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