

# INTEGRATING THE IS PERSONNEL AFTER A MERGER – MANAGING CHALLENGES AND OPPORTUNITIES

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## Abstract

*In post-merger integration, both human integration and IS integration play a crucial role. In the heart of both of these, lies the integration of the IS personnel. In this paper, we review the literature relevant to IS staff integration in order to explore the opportunities and challenges the IS personnel faces during post-merger integration. The challenges and opportunities the IS staff faces during post-merger integration stem from (1) the merger situation, (2) the IS personnel as an occupational group, and (3) the managerial interventions. A conceptual framework integrating these elements and studying their interdependencies is formed.*

*Keywords: Post-merger integration, IS personnel, merger, acquisition*

# 1 INTRODUCTION

Post-merger integration is a gradual and interactive process in which the individuals from two or more organisations learn to co-operate in the transfer of strategic capabilities. The post-merger integration takes place at several levels. Shrivastava (1986) calls these procedural, physical, and managerial/sociocultural, whereas Birkinshaw et al. (2000) use the terms task integration and human integration. The importance of the post-merger integration is derived from the fact that the value creation can only begin when the organisations begin to work towards the purpose of the acquisition. In other words, the integration is the source of value creation. Besides this, faulty integration is a significant cause for merger failures. (Habeck et al. 2000, Haspeslagh & Jemison 1991, Shrivastava 1986)

Cartwright and Cooper state that the earlier merger research and speculation concluded that “merger failure was largely attributable to factors such as: continued power struggles at the top, relative partner size, context (i.e. the degree of hostility surrounding the bid), post merger managerial exhaustion and apathy as a result of difficult and protracted negotiations and insensitivity towards grieving and anxious managers/employees.” (Cartwright & Cooper 1995) After the time of reaching this conclusion, the emergence of the “softer” or human side in the research on mergers and acquisitions<sup>1</sup> (M&A) is apparent. For example, in his review of prior research, Vaara found out that the explanations for success or failure in mergers had been: (1) strategic fit, (2) cultural fit, (3) the management of a merger or acquisition process, (4) employee resistance, and (5) other explanations, such as: environmental factors, management turnover, method of financing, relative sizes of the organisations, prior acquisition experience, pre-merger performance of the acquiree, and organisational age. (Vaara 1996)

The human impacts of the acquisition process are wide-ranging and dependent on the level of post-merger integration. Research shows that the corporate culture and other “softer” organisational issues are among the main causes behind the success or failure of a merger situation, or at least some negative outcomes. Most people resist change, and cultural change is among the most difficult because culture provides the foundation for one’s life. Because of this, attempts to implement organisational, procedural, and other merger-related changes are resisted or even “sabotaged”. Besides these, high levels of layoffs bring along insecurity, anxiety and stress that corrupt moral and decrease productivity. Also the personnel that is most employable elsewhere – and probably most wanted to stay – may leave the company. (e.g. Cartwright & Cooper 1993, Schweiger & Weber 1989, Schuler & Jackson 2001, Buono et al. 1985, McKiernan & Meral 1995, Franck 1990, I/S Analyzer 1989) However, previous studies (e.g. Hunt & Downing 1990, Marks & Mirvis 2001, Horwitz et al. 2002, Ivancevich & Schweiger & Power 1987, Schweiger & Weber 1989, Schuler & Jackson 2001, Buono & Bowditch & Lewis 1985, Datta 1991, Pablo 1994, Cartwright & Cooper 1993, 1995) suggest that more traditional financial and strategic questions of the post-merger integration have been emphasised at the expense of human and cultural factors.

On top of this, in comparison to the cultural issues, post-merger integration of the IS/IT is predicted to have an even more important role in determining whether the post-merger integration succeeds or fails. This seems to be applicable especially in cases where the business is IS intensive. Since the information systems are of utmost importance in the operation of (large) business, a merger or acquisition may not succeed if the information systems planning is inappropriate. Besides this, potential counter-synergies can be concealed in information systems. (I/S Analyzer 1989, 3; Franck 1990, 41) Even though several authors recognise the importance of IT in the post-merger integration (See e.g. Franck 1990, I/S Analyzer 1989), the academic literature on the post-merger integration of

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<sup>1</sup> In this paper terms merger and acquisition are treated synonymously (cf. Horwitz et al. 2002).

the IS/IT has been claimed to remain scarce. (e.g. McKiernan & Merali 1995, Goodwin 1999, Cossey 1991, I/S Analyzer 1989)

The integration of the information systems in a post-merger situation faces contradictory pressures. For example, the information systems (IS) personnel are expected to reconcile the systems quickly (Stylianou et al. 1996, 204) but they are often excluded from the pre-merger negotiations and planning. Also, as different procedures and processes should be harmonised, cultural clashes – e.g. power struggles over whose system will be chosen – may arise.

In order to succeed in the integration, the IS personnel plays a key role. On one hand, the IS staff must be integrated, and issues related to human and cultural integration are faced, and on the other hand, the IS staff is at the heart of the IS integration which makes the success in merging the two (or more) IS departments crucial. Integrating the IS staff may require special attention as the information profession has several features that suggest a tailored human resource management (HRM) for information professionals (Finnegan & Murray 1999). Nowadays, the role of information systems is central practically in every company and organisation. Functionality of the IS, in turn, is dependent on the competence and motivation of the IS personnel. When the skills of IS staff are very organisation-specific by nature, it is extremely important to pay particular attention to the integration of them in order to avoid the possible negative (human resource related) outcomes caused by the uncertain situation.

The aim of this paper is to review the literature relevant to IS staff integration in order to explore the opportunities and challenges the IS personnel faces during post-merger integration as well as the managerial responses to these. On top of these, a conceptual framework is formed.

## **2 HUMAN ISSUES IN POST-MERGER INTEGRATION**

Mergers and acquisitions, like organisational transitions in general, are typically followed by major structural and cultural changes, which may arouse stress, anger, disorientation, frustration, confusion and fright among personnel. Uncertainty and other negative emotions, in turn, tend to lead on to the several negative organisational outcomes, like lowered commitment and productivity, increased dissatisfaction and disloyalty, high turnover, leadership and power struggles, sabotage and a general rise in dysfunctional behaviours. (cf. Schweiger & Weber 1989, Cartwright & Cooper 1993, 1995.) The most often mentioned human risks related to the M&A situation are listed as follows (Mirvis & Marks 1992, Buono & Bowditch 1990, Schweiger & Weber 1989, Ivancevich et al. 1987, Schuler & Jackson 2001, Cartwright & Cooper 1993, 1995, Horwitz et al. 2002):

- Voluntary turnover of key people and losses of expertise
- Job losses
- Lowered commitment and disloyalty
- Performance drops and lowered productivity
- Motivational problems
- Dissatisfaction, frustration, confusion and stress
- Dysfunctional behavior and sabotage
- People refusing assignments
- Increased absenteeism
- Health problems
- Power struggles.

The importance of the human resource-related activities in merger and acquisition management have been underlined e.g. by Buono and Bowditch (1990), whose study on the human resource issues in mergers and acquisitions is based on two cases. One of the cases studied took place between two banks and the other one represents the retail trade industry. Buono and Bowditch identified two different approaches to handle M&A process. The first is named as typical approach, whereas the other is called recommended approach. In addition to the two approaches, the framework contains five

critical issues in managing human resources in a merger or acquisition situation (see Table 1). First, competing claims between different stakeholders refer to the fact that mergers and acquisitions always involve multiple interest groups with separate needs and goals. Second, secrecy versus deception represents the enforced communication strategy. Management style related questions of coercion versus participation, in turn, illustrates the practices of the decision-making during the transition process. Fourth, the framework includes the decisions of managing the sense of loss, grief and termination. On top of this, the ethical dimension of mergers and acquisitions includes the level of respect for employees as individuals.

	TYPICAL APPROACH	RECOMMENDED APPROACH
COMPETING CLAIMS	Limited View Stockholder emphasis Cultural takeover	Broader View Stakeholder emphasis Cultural Pluralism and cultural blending
SECRECY versus DECEPTION	Controlled release of information Use of information to manipulate employees One-way Communication	Realistic merger previews Presentations, workshops, hotlines  Two-way Communication
COERSION versus PARTICIPATION	Autocratic decision making cultural takeover "Do it or else" attitude Limited efforts to work through employee grief and loss	Transition teams and team building Merger oversight structures Survey feedback Focused efforts to counsel employees
GRIEF, LOSS and TERMINATION	Terminations based on organizational politics rather than performance Limited outplacement assistance  No support for stayers Low: utilitarian focus on "greater good" overrides concern for individuals	Merger-related workshops  Reduction in force through attrition and voluntary separation Supportive outplacement assistance High: balance between questions of fairness and individual rights and broader company/stockholder/stakeholder needs

*Table 1. Human resource considerations in mergers and acquisitions (Buono & Bowditch 1990).*

The typical approach tends to take more limited view to the M&A process than a recommended approach. Therefore, the recommended approach emphasises stakeholder perspective instead of stockholder perspective, which is characteristic of the typical approach. Cultural diversity, in turn, describes the recommended approach, whereas traditional approach aims at cultural uniformity. When the communication policies of the two approaches are compared, it can be stated that typical approach to HR management in M&A's is concentrated on one-way communication and controlled information that is used in manipulative purpose. The recommended approach, in turn, tends to generate realistic expectations and aims at open, honest and timely communication through presentations, workshops and hotlines. (Buono & Bowditch 1990, cf. also Schuler & Jackson 2001, Cartwright & Cooper 1993.)

The empowerment of personnel is one of the most crucial, but still very neglected field of organisational change process. Participative personnel strategy can express itself as a foundation of transition teams and team building, a collection of survey feedback and an investing in employee support (cf. Schweiger & Weber 1989, Schuler & Jackson 2001). The handling of the conflicting emotions experienced by employees during the transition has a significant impact on employee attitudes. There are several practices to handle the employee terminations and staff reductions. The recommended way is to arrange merger-related workshops, to favour staff reduction through attrition and voluntary separation and to offer supportive outplacement assistance instead of no support for stayers or limited outplacement assistance for those out of work. The typical approach contains the terminations of employment, which are based on organisational politics rather than employee performance. (cf. Buono & Bowditch 1990, Ivancevich et al. 1987; DiGeorgio 2003.)

The commitment of personnel is dependent on the way that an employer treats the employees. The recommended way to treat employees is based on the balance between questions of fairness and individual rights. The lack of respect for employees as individuals is characteristic of the typical approach, which emphasises more utilitarian focus on the overall success of the institution at the expense of individual organisational members. (Buono & Bowditch 1990.)

The typical and recommended approaches of the model of Buono and Bowditch are paralleled by the hard and soft human resource practices in mergers and acquisitions respectively (cf. Cartwright & Cooper 1995). Soft model is associated with issues similar to recommended approach, e.g. early employee involvement, establishing an integration team, building organisational capability, strategically aligning and implementing appropriate systems and procedures, managing culture, managing post merger drift by managing the transition quickly, clear communication and information flows and streamlining systems and procedures (Tetenbaum 1999, Horwitz et al. 2002). Hard model, instead, is more emphasised on the accomplishment of the strategic and financial objectives than the human or culture related questions (Cartwright & Cooper 1995).

### **3 CHALLENGES AND OPPORTUNITIES INVOLVING THE IS STAFF AFTER A MERGER**

Merger or acquisition process contains uncertainty, instability, disappointments and creates lack of commitment (Pablo 1994). When studying the IS personnel particularly, the voluntary labour turnover is one of the severest human risks caused by these negative emotions. Voluntary turnover is at its highest in the early stages of the M&A process. This is due to the uncertain and ambiguous situation where employees are uncertain of what will happen and in which time scale the changes will come true. In mergers, personnel issues such as job security, responsibility and salary become the most important factors for people leaving the company (Galphin 1999). In order to dispel the suspicions, it is of utmost importance to make sure the availability of clear information and consistency of the communication just from the beginning of the process. Unplanned personnel losses are specifically problematic because the probability of leaving is greatest amongst the most talented and experienced employees. This is because, the people who are most wanted to stay are also most readily employable elsewhere. In addition to the outflow of talent and expertise, the costs of recruitment and retraining, losses of valuable customer contacts and goodwill are the threats of high employee turnover. The departure of respected organisational role models and bitter dismissals may also be harmful to the wider reputation of the organisation, which in turn causes difficulties in future recruitment. (Ivancevich 1987, Cartwright & Cooper 1993, 1995.) In addition to the uncertainty and anxiety, employee turnover caused by turbulent organisational situation may have a severely disruptive and demotivating impact on those who remain. (Cartwright & Cooper 1993, 1995.)

One of the most centric causes of turbulence is the decisions concerning the IS infrastructure of the new organisation. As the possible decisions range from maintaining the *status quo* to totally consolidating the systems, the indications to the IS personnel also vary greatly. For example, total integration may lead to (dramatic) needs for staff reduction and need to develop new competencies with regard to the system adopted especially for the department whose system is discarded. On the other hand, partial integration by picking and mixing suitable system components from both (all) companies may imply the same needs with regard to the workers whose system is discarded. Furthermore, partial integration by using middleware should present further challenges because the structures to transfer data between the two organisations must be created and maintained; i.e. workload is increased (at least temporarily) and new skills are required. In case it is decided that separate systems will be maintained, the effects on the IS staff are likely to be less dramatic; consisting of e.g. needs to develop reporting on the corporate level.

We suggest that the outcome of the post-merger integration of the IS staff is a function of the factors related to the merger/acquisition in question, the IS personnel as an occupational group, the threats and

opportunities stemming from these two, and the managerial interventions carried out to avoid the problems and fostering the benefits. Moreover, these factors are interrelated, as illustrated in Figure 1.

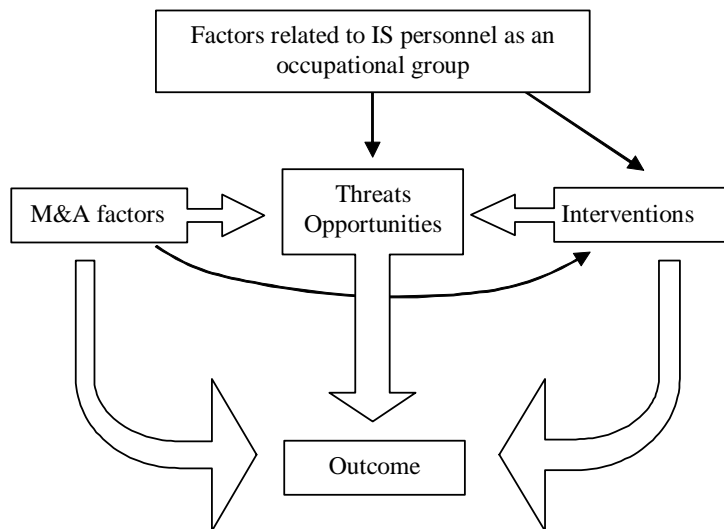


Figure 1. Framework for managing the post-merger integration of the IS staff.

In Figure 1, M&A factors state for the merger related HRM as well as other issues stemming from the merger situation in question; i.e. need for reduction in the number of personnel; increased workload; differences in salaries, compensation and benefits schemes; cultural differences; uncertainty about future, etc. Part of these factors are discussed in detail in Section 2. Furthermore, problems may stem from e.g. if the IS personnel and their requirements are not included in pre-merger planning, or decision making during the merger.

IS personnel as an occupational group refers to the fact that the ICT field and the information profession have several features that suggest a tailored HRM for information professionals (Finnegan & Murray 1999). First of all, as the ICT industry is undergoing fast changes and the number of information professionals has increased, their developmental needs are also constantly increasing (cf. Martinsons & Cheung 2001). Thus the ICT personnel is expected to develop continuously and it must happen under circumstances, where high expectations for the organisational productivity exist. On the other hand, employees also create pressure for employer organisations, because they have high expectations about their work. If they are not satisfied they easily leave the organisation. Although current recruitment problems in ICT industry are not that serious as they were a couple of years ago, when the field was undergoing the most hectic times, companies still have difficulties in finding adequately skilled information professionals (cf. Ruohonen et al. 2002). The relatively small number of skilled ICT professionals motivates organisations to take management issues more intensively into consideration (cf. Cappelli 2001, Finnegan & Murray 1999). It has also been stated that new knowledge worker's work values and culture of working differ fundamentally from those prevailing among more traditional industry workers (cf. Ruohonen et al. 2002).

Interventions refer to the managerial actions that aim at avoiding the problems or realising the potential benefits. Some of these interventions are summarised in Table 1 (Chapter 2). On top of these, in order to tackle the abovementioned problems and to foster synergy creation, the following measures can be used: good planning and constant review, good communication, IS staff involvement, understanding the motivations of IS person, appropriate compensation mechanisms, consideration of IS culture differences. These managerial actions and attitudes may also be negative; such as under-appreciation of IS staff efforts.

To a vast extent, the challenges involving the IS staff after a merger are likely to be similar to those faced by the all the personnel (cf. section 2). Threats and opportunities include e.g. loss of experienced people, lower commitment to work for those staying, decrease in innovativeness, merger stress, and non-challenging work. (e.g. Cartwright & Cooper 1994) When duplication of responsibilities is avoided in the new organisation, some employees may be left without the responsibilities they previously held. On top of this, standardisation, which mergers normally bring along, decreases the challenges and creativity of the work. However, a typical IS person favours a challenging work that allows expanding personal knowledge, and experience over salary or working conditions

## 4 DISCUSSION

The framework presented in Figure 1 (Section 3) aims at (a) identifying the factors affecting the post-merger integration of the IS staff, (b) identifying the challenges and opportunities presented by this situation, (c) identifying the managerial actions that can be taken, and to (d) explaining the dynamics between (a-c), as well as their effect on the possible outcomes.

The framework is designed to be clear and understandable. The inevitable simplification, obviously, brings along also some problems and questions. For example, should the threats and opportunities be treated together or separately? Several issues may present both challenges and opportunities; depending on the corresponding managerial interventions. In case they would be treated separately, how should we classify e.g. new tasks and assignments that may present both threats (e.g. boring and tedious new tasks) or opportunities (new career possibilities)? Besides these, there are also several other issues that may be difficult to classify. Yet another question remaining is, whether the type of business (e.g. highly IT intensive / not IT intensive) affects the framework.

We will test the framework empirically in order to verify and fine-tune it, as well as to shed some light to the questions presented above. In order to do this, we are planning to carry out a multiple case study, which enables an in-depth insight to the phenomenon in questions as well as solving a real-life managerial problem. We hope to find cases that would represent the different acquisition types – preservation, symbiosis, absorption, holding – and hence strategic positions (reactive/ proactive role) the IS integration can have in the post-merger management (Haspeslagh & Jemison, 1991, Merali & McKiernan 1993). However, due to the sensitive nature of this area of study, access may turn out to be an important criterion for selecting the case sites (see e.g. Yin 1993, see also: Merali & McKiernan 1993).

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