Management strategy and HR in international mergers: choice, constraint and pragmatism

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The article combines consideration of the range of contextual factors that impact on management strategy and HR in the post-merger period (such as corporate structures and cultures, pressures from shareholders and regulatory and legal environments at national and international level) with an examination of the interests and power of various groups of actors within the firm. Specifically, we apply a framework which integrates the insights of market-based, institutionalist and micro-political approaches. We locate our analysis within the relevant international HRM literature, most notably recent debates concerning multinational corporation (MNC) merger dynamics. International mergers and acquisitions provide particularly useful scenarios through which to explore the interdependence between choice and constraint, illustrated here by processes of negotiation, compromise and balance across a range of issues in several case study organisations. The key areas highlighted concern: (1) the integration of HR strategies, and (2) processes of post-merger rationalisation.
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INTRODUCTION

There is now a considerable body of evidence that the performance of firms formed through mergers and acquisitions (M&As) consistently fails to live up to expectations, and numerous studies have suggested that HR and employment relations issues are poorly handled in M&As (Buono and Bowditch, 1989; Cartwright and Cooper, 1996; Marks and Mirvis, 2001). As Cartwright and Schoenberg point out, 'inappropriate decision making, negotiation and integration processes can lead to inferior acquisition outcomes', and in particular, they explain underperformance in terms of 'the cumulative dysfunctional impact that the event itself, its associated uncertainty and the subsequent process of integration have on individual organisational members' (2006: S3). Likewise, Boxall and Purcell have observed that 'difficulties in achieving organisational fit, especially the meshing of cultures or management styles, are often identified. . . . Most often, the failure of M&As occurs not at the negotiation or purchase stages . . . but at the implementation stage when two firms come together' (2003: 220).

These problems are as evident in international M&As as in domestic ones. Empirical data have revealed little change in international M&A failure rates over many years, with up to half of all deals considered to have not met their original objectives (Kitching, 1974; Hunt, 1990; KPMG, 1999). Soderberg and Vaara claim that cross-border M&As 'frequently fail to deliver the synergistic or other benefits strived for, lead to human resource and cultural problems, result in power plays, and often produce problematic consequences for various internal and external stakeholders' (2003: 11). This is particularly significant given the rapid rise in international M&As in recent years and their growing spread into sectors in which they used to be relatively rare, including the public services.

We focus on management strategy and its HR implications at the implementation stage in international M&As. This is an area fraught with challenges, and frequently the 'sociocultural integration of different organisational cultures, HR systems, managerial viewpoints, and other aspects of organisational life can lead to sharp inter-organisational conflict' (Stahl *et al.*, 2004: 90). The international merger process is an intensely uncertain period when a great deal is 'up for grabs' for those within each company, at the same time as contextual factors at both the organisational and national levels set the parameters within which decisions are made. We establish a framework which incorporates the range of contextual factors that impact on the post-merger period (such as corporate structures and cultures, pressures from shareholders and regulatory and legal environments at national and international levels) with an examination of the interests and power of various groups of actors within the firm. This focus on the interaction between structural factors and political processes is consistent with the well-established concept in social theory of the 'duality of structure', which posits that structural and contextual aspects do not have determining effects while, equally, political processes do not operate independently of structure, but are shaped and constrained by it. This article explicitly develops this approach in relation to HR in international M&As and illustrates the value of such an approach through the analysis of rich case study data.[1]

The following section considers some of the relevant international HRM literature, in particular concerning international merger dynamics, in more detail, and sets out the explanatory framework for the interpretation of the data. This is followed by a brief outline of the case study organisations and the methods used. We then present our substantive findings around two discrete issues – the integration of HR strategies and post-merger rationalisation. Finally, some brief conclusions are drawn and the implications for HR practitioners are considered.

Key concepts and propositions

In his overview of the range of approaches to understanding strategy, Purcell distinguishes between the 'design school', where 'strategy is usually deliberate and built on an assumption of economic rationality' (2001: 74) and the 'power school', which highlights 'strategy formation as a process of negotiation' (*ibid*: 68). Thus, while various strands within the business strategy literature, such as classic contingency theory, have posited that firms have few options beyond those determined by the structure of the market in which they compete, others have stressed the central concept of 'strategic choice' (Child, 1972, 1997) which recognises both a proactive and a reactive aspect in organisational decision-making vis-à-vis the environment. From this perspective, 'strategic management should thus be seen as a dialectical paradigm between choice and constraint' (Calori *et al.*, 2000: 3). It follows that any analysis of international merger processes requires a conceptual framework that recognises the interactions between external forces and strategic decision-making, or in other words, reconciles structural forces and voluntaristic actions. One such approach to the issue of the transfer of HR practices within multinational corporations (MNCs) is that proposed by Edwards *et al.* (2007), and here we apply this framework to the issue of HR in international M&As (see also Farndale and Paauwe, 2007 for an integration of these approaches).

The first aspect of the framework concerns the market pressures that firms experience. Almost all companies compete with other firms for market share, and they almost all compete for access to finance in financial markets and for labour in labour markets. Thus, the way they manage their workforces is shaped by these constraints. Competition in product, financial and labour markets creates a strong impetus on management to choose the most efficient option available; sub-optimal outcomes endanger the company's long-term viability. This features strongly, if implicitly, in many models of international HRM, such as that of Taylor *et al.* (1996) which emphasises HR practices and expertise as 'organizational competencies' that MNCs can use to enhance their competitive position. Similarly, Bjorkman and Lervik (2007: 320) argue that 'organisational practices can be viewed as valuable resources or competences that one seeks to replicate and exploit throughout the firm'. One indication of market pressures is the way in which many MNCs engage in systematic cross-national benchmarking in an attempt to identify practices that can be utilised across the firm (*e.g.* Sisson *et al.*, 2003; Farndale and Paauwe, 2007).

Market pressures are bound to feature strongly in the way that firms operate in the period after an international M&A. While one motivation for M&As may be to limit competition in product markets, they are unlikely to be able to reduce it completely as a result of regulatory constraints. Moreover, where the lead firm in an international acquisition is publicly quoted, it is common for promises to be made to the financial markets concerning the scale of cost cutting that the merger will facilitate. As Soderberg and Vaara (2003) note, much of the research on organisational change processes in international mergers has focused on strategic questions concerning a firm's competitive position, such as which acquisition choices are likely to lead to success and how performance is linked with resource deployment. One strand of this is prescriptive, such as Schuler *et al.*'s analysis of the role of HR in international M&As which provides a set of guidelines for senior managerial staff to follow to help them 'implement more successful alliances' (2004: 21).

Clearly, the emphasis on market pressures and constraints captures a key aspect of the realities of international M&As. However, as Edwards *et al.* (2007) note, there are often multiple possible courses of action that are consistent with meeting market pressures and within a large, complex firm there are 'competing rationalities'. One source of these competing rationalities is the distinctive national environments in which firms operate. There is, of course, a large literature on MNCs concerned with understanding these national effects and within this we can distinguish between a dominant paradigm focusing on national culture on the one hand (*e.g.* Tayeb, 1998) and an institutional approach on the other. Within the latter, there is an expanding literature drawing upon neo-institutional theory (*e.g.* Kostova and Roth, 2002) and another strand that stresses the importance of 'national business systems' in terms of the way institutions governing product, labour and financial markets are interconnected to create 'national logics' (*e.g.* Morgan, 2001). These national effects have been used to identify both 'home' and 'host' country effects; that is, the actions of MNCs are conditioned by the cultural and institutional forces from the country of origin while simultaneously constrained by the need to adapt to the distinctiveness of the various national contexts in which they operate. This tension is one that has preoccupied many researchers in the international HRM field (see Edwards and Kuruvilla, 2005 for a review).

These features are evident in the literature on HR in international M&As to some extent. For instance, Faulkner *et al.*'s (2002) study of acquisitions in the UK by overseas-owned MNCs sheds light on the nature of post-acquisition change and how this was conditioned by the nationality of the acquirer. In particular, American firms were the most likely to adopt a centralised, forceful and hands-on approach to integration and to make an explicit attempt to shape the culture of acquired units. Other evidence demonstrates how the institutions of host countries act as constraints on management's ability to pursue a common approach to HR following a cross-border merger. One illustration is Edwards *et al.*'s (2006) analysis of a pharmaceuticals company, which revealed the way that management was constrained in implementing some common policies across their acquired operations, such as individualised performance-related pay, and also showed that the consequences of the job regrading process in the post-merger period differed across sites in a way that reflected national institutions. While this case highlighted these national constraints, it also pointed to the limitations of a host country perspective in that much of the post-merger restructuring reflected the interests of organisational actors rather than primarily institutional constraints (*ibid*.).

This latter point highlights the need to supplement a consideration of institutions with a focus on micro-political processes. While the culturalist approach has been heavily criticised, not least for its tendency to overstate cultural homogeneity within nations, Ferner *et al.* (2005) note that even the more sophisticated institutionalist arguments generally give 'scant attention to the role of power and interests in this process' (p. 307). Thus, a third aspect to the framework is a micro-political dimension which emphasises the strategising of actors, particularly how they protect or advance their own interests (Edwards *et al.*, 2007). Building in a focus on how a sense of direction for the organisation as a whole emerges from a series of choices that actors make, and struggles between groups of actors, avoids the dangers of determinism that would arise if the analysis were to rest solely on market and institutional factors.

There are a large number of studies of MNCs that demonstrate the role of the micro-political dimension in how these firms operate. In particular, this allows consideration of how organisational actors draw upon power resources deriving from their local environment, such as their understanding of the legal system, to resist the full implementation of corporate policy, leading to a range of compromise positions. This is consistent with conceptualising the MNC as a 'loosely coupled political system' (Forsgren, 1990) or as a 'structure of power' (Ferner and Edwards, 1995), and draws attention to how extra-firm institutions and power relations within the firm are strongly interlinked (Belanger *et al.*, 1999). Similarly, Corteel and Le Blanc (2001) distinguish between the economic rationality and the political rationality of the international merger, emphasising the importance of the latter: 'Besides economic rationality, the trans-national firm has to submit to the political rule in order to function . . . [and this] political rationality . . . governs the relations among plants located on different national territories' (p. 16). In a similar vein, Meyer (2001) adopts an organisational justice perspective to examine allocation processes in M&As, highlighting the political trade-offs managers have to make in the allocation of human and other resources of symbolic importance. Another illustration is provided by Soderberg and Vaara (2003), who utilise a 'sensemaking' approach to explore the political aspect of post-merger processes in the Nordic financial services group Nordea. They consider the socially negotiated and constructed meanings that key players give to the merger process, and hence develop an understanding of subsequent managerial dilemmas and challenges. A rich descriptive account of the multiple narratives and political gamesmanship within cross-border mergers is provided by Kristensen and Zeitlin (2005), who outline the way conflict occurs between business units as local actors adopt differing 'positional strategies'. A final illustration is Piekkari *et al.*'s (2005) analysis of the politics surrounding the use of a common corporate language during cross-border merger integration, in which they argue that 'the inability to operate in the corporate language may result in various patterns of social inclusion and exclusion: on the one hand, some individuals may be marginalized due to their limited language competence; on the other hand, language skills may function as a source of informal, expert power' (Piekkari *et al.*, 2005: 334).

We now turn to consider how this framework of market, institutional and micro-political factors can be used to guide the analysis of the specific issues that we consider in this article. The first of these is the integration of different approaches to HR. One might hypothesise that the pressures from markets would force the merged company to develop a common approach that is governed by senior managers' perceptions of 'best practice'. This might take the form of both external benchmarking, in which the merger or acquisition prompts senior managers to look outside the firm for innovative practices, and internal benchmarking, involving an assessment of the merits of the variety of practice within the merged firm and a judgement concerning which set of practices convergence should be based upon. A focus on institutional effects, however, leads to the expectation that the HR strategy the firm develops after the merger will be shaped by the institutional pressures from the country in which the lead firm is embedded, with this strategy being implemented in such a way that it is adapted to fit in with the institutions of the host countries. The micro-political aspect to the framework suggests that the nature, coverage and operation of particular policies that stem from the firm's strategy in the post-merger period will be subject to negotiation and will reflect the interests and influence of various groups of actors within the firm.

The second issue we consider is the nature of rationalisations that occur in the post-merger period, which can also be analysed through the three elements in the framework. It is very likely that pressures from markets, particularly financial markets, will be strong in the post-merger period given that many international M&As are justified on the basis of the cost savings that will follow, leading to an expectation that post-merger rationalisations are strongly shaped by the promises senior managers make at the time of the merger. A focus on institutions would complement this by implying that where cuts fall will be governed not only by the performance of the operating units but also by the varying speed and cost of closures and redundancies in different institutional settings. We might also expect a micro-political dimension to rationalisation to be crucial, because the criteria for where cuts should fall and how quickly they should be implemented are rarely completely clear. Thus, there is likely to be evidence of various groups seeking to manoeuvre themselves into positions where they are least likely to suffer from cost cutting, using strategies of obfuscation, for example, to help them do so.

In sum, the analysis will explore the relative contribution of, and inter-relationships between, the market, institutional and micro-political perspectives on international M&As. In doing so, we seek to contribute to a small but growing body of work on HR in MNCs which emphasises the need for 'less emphasis on grand tendencies and greater attention to how complex processes work themselves out in particular situations' (Quintanilla and Ferner, 2003: 364). In the following section, we describe the process of data collection that we used to address these issues.

METHOD

Given the emphasis on examining internal political processes and dynamics, the study adopted a qualitative case study approach. There were three phases to the data collection: (1) a 'pilot' phase involving 12 companies, (2) a more 'in-depth' phase involving four companies, and (3) a 'focused case study' phase involving just one company.

The first phase involved two firms from each of six sectors (finance, IT, oil, pharmaceuticals, utilities and food), as summarised in Table 1. The rationale for this was to gather a snapshot of a range of different types of international deals – mergers of equals, acquisitions involving different nationalities of parent firm and international joint ventures – in a variety of sectors and involving the pursuit of varying strategies. This phase involved the researchers interviewing one or two HR managers across each of the 12 organisations. The intention was to gain awareness of some of the key issues across sectors and to secure access for the more in-depth second phase.

The second phase involved conducting more in-depth studies in a subset of four of these firms, namely: *SnackCo* (three interviews with HR directors at European and British levels); *BritOil* (six interviews with senior HR staff covering a number of regions, including the UK and Spain); *EuroFuel* (seven interviews with a range of HR staff in the UK, France and Germany); and *GlobalDrug*. In the latter case, the opportunity arose to carry out research in a number of countries, and so this case study developed into a more thorough 'focused case study'. We interviewed extensively – 36 people in total – at the UK headquarters (HQ) and at four comparable sites in the UK, USA, Germany and Spain, supplementing this with an interview in China.

The analysis of both aspects of international M&As that we consider in this article begins with the case of *GlobalDrug*, before moving on to consider other cases, on the basis that it offers a particularly rich account of post-merger processes. The data from phases one and two, on the other hand, provide a broad sketch of diverse types of international M&A and they are used to highlight how patterns vary across different types of tie-ups. In total, 63 interviews were conducted over an 18-month period, giving us a substantial body of data. The data are primarily drawn from HR professionals, allowing us to chart in detail the handling of HR issues, but we also

TABLE 1 *The firms involved in phase one*

Name	Sector	Details
BritBank	Finance	A British bank acquiring banks in other countries
Global FinServices	Finance	An American financial services group involved in joint ventures in Europe
ITServices	IT/telecoms	An American group providing IT services on an outsourcing basis
TeleCo	IT/telecoms	A partly American-owned specialist IT and telecoms player
BritOil	Oil	A British oil major involved in a number of acquisitions
EuroFuel	Oil	A French oil major, created through two successive mergers
GlobalDrug	Pharmaceuticals	A major drugs firm created through the merger of a British and an Anglo-American firm
USPharma	Pharmaceuticals	An American drugs giant that acquired a smaller American firm
UKPower	Utilities	A British group involved in a number of acquisitions in Europe and North America
International Services	Utilities	A diversified French firm involved in a range of services, acquiring a series of small UK firms
SnackCo	Food	An American-owned firm acquiring a British-based provider of convenience foods
FastFood	Food	A major American provider of fast food that acquired a small British, niche firm

interviewed a range of people from other functions, particularly in *GlobalDrug*. This allowed for an assessment of the role of HR from a broader perspective, and for a detailed picture to emerge of the way formal policies operate in practice.

FINDINGS

The integration of HR strategies

A crucial HR consideration during an international merger is the scope and speed of integration. Various frameworks have been advanced for characterising how the balance between strategic interdependence and structural autonomy is struck, including the ways in which levels of integration will vary across countries (*e.g.* Child *et al.*, 2001). Our data provide illustrations of the diverse ways in which firms integrate in the post-merger period. We analyse these through the lens of market pressures, institutional constraints and internal micro-political processes.

There were some examples of market pressures being evident in the process of integration at our principal case study firm, *GlobalDrug*. The merger was justified partly on the basis that the increased scale would allow the firm to build a powerful research and development (R&D) base. However, there was a concern that the R&D

division would be so large that it would become overly bureaucratic, stifling innovation. In response, senior management introduced a structure that had not been part of either company prior to the merger, involving six semi-autonomous units. These were organised around particular types of drug and allowed managers within each unit to manage their workforces in ways that they saw fit, with pay and benefits packages varying according to the labour market pressures within each particular occupation and region. The plan was that these units would foster an entrepreneurial spirit that would emulate dynamic biotech companies and that those scientists involved in bringing a new drug to market would be rewarded handsomely for so doing. In practice, there were some limitations to the autonomy that the units enjoyed, but their creation represented a form of integration based on an entirely new structure rather than on those that existed in either party prior to the merger. This illustrates the scope for managerial initiative in response to competition, particularly regarding the recruitment and retention of key staff.

Firms' position in markets also limits the scope for integration, however. In some sectors, the immediacy between firm and consumer means that MNCs must have a presence in a national market if they are to serve it. This was evident in the finance sector, where *BritBank*'s acquisition in France had been motivated by the desire to establish a presence in a new market. Given this rationale for the acquisition, the acquired firm was allowed considerable autonomy with little attempt to integrate HR across borders. A similar process was evident in the other finance firm, *Global FinServices*, and in the utilities sector, where both *UKPower* and *International Services* had used international acquisitions as a way of capturing new markets that could not be served through exporting. In both sectors, the regulated nature of markets at national level was a further force toward limited integration.

While the *GlobalDrug* case illustrates the way that senior managers can lead integration through purposive steps to new structures based on a benchmarking exercise, integration in HR largely followed the strategy of one party to the merger, namely, the predominantly US-oriented firm *USDrug*. A key part of this is the structure of the function; while the British party to the merger, *UKDrug*, was organised mainly around 'geographic silos' with HR structured on a national basis, *USDrug*'s structure was formed around globally integrated businesses and functions. Between the merger being announced and completed, senior managers decided that the new company would move toward the globally integrated model. One immediate implication of this concerned the filling of senior HR positions in the merged firm; those individuals who had experience of operating internationally were clearly well placed to get the top jobs and, indeed, it was people from *USDrug* who dominated the HR function at senior levels.

This adoption of a globally integrated model also had implications for the nature of HR policies. Apart from the use of information technology (IT) systems in the HR function, most respondents struggled to think of HR policies that had come from the British party to merger. In contrast, there are a number of areas where policies closely resemble those of *USDrug*. For instance, it operated with a higher proportion of pay 'at risk' and lower base pay than its British counterpart, and the movement was decisively toward *USDrug* on this issue. To some extent, we can see this mode of integration as reflecting American norms and, therefore, as evidence of institutional effects. A raft of studies have demonstrated the centralised and standardised model of managing HR in US MNCs in general and their preference for 'variable' pay in particular (*e.g.* Ferner *et al.*, 2004). This tendency toward centralisation can be seen as an extension to the international level of the organisational structures and means with which American companies exert control over their domestic operations (*ibid.*)

Institutional effects were also in evidence in the way in which merged firms' strategies resulted in considerable differentiation of HR policies. To some extent, a degree of national variation crept in where integration had initially been sought. At *SnackCo*, for instance, it was evident during the first few months following the merger that the parent company in America wanted to introduce a range of policies across their operations. However, it soon became clear that considerable flexibility was incorporated into this global approach. For instance, on pay the initial intention had been to move toward standardised individual incentive plans, but in many European countries, HR managers argued that they needed works council approval. The reaction from corporate and European HQ was pragmatic, reluctantly accepting that many pre-existing practices should be left in place. The constraints on changing pre-existing practices in the integration phase showed through in relation to pay in *BritOil.* While pay and benefits in the acquiring firm were more 'egalitarian', as one manager described it, and there was a strong variable element to pay, in contrast the acquired firm was more 'hierarchical' with an individual's pay package resting partly on their formal status and partly on what they personally were able to negotiate. *BritOil* managers were conscious of the institutional constraints they faced in making changes and guaranteed that no employee would be worse off for the first two years. This gradual assimilation meant there was a feeling of 'business as usual' for many acquired employees, one observing that 'life hasn't changed too much'.

In two of the other case studies, institutional constraints were even more evident. *ITServices*, an American firm, had grown significantly through winning contracts from the outsourcing of IT operations, including many deals from the public sector. In doing so, it inherited many different sets of terms and conditions, and the firm's ability to harmonise these was significantly constrained, partly by the Transfer of Undertakings Protection of Employment (TUPE) regulations. Indeed, the firm had 27 sets of terms and conditions in its UK operations. The constraints on integrating different sets of terms and conditions were also strong in *EuroFuel*, where management had initially envisaged a degree of harmonisation across their various sites in the way pay was comprised, bringing a degree of alignment on such issues as performance-related pay. However, it quickly became evident that there were major barriers to this, not only through TUPE in the UK (and its equivalents in other European Union member states) but also through collective bargaining. The oil refineries and chemical works in particular were strongly unionised and local employee representatives were fiercely opposed to giving up concessions won from management in the past. Two years after the merger, respondents admitted that there was little hope of meaningful integration across all sites and that a 'patchwork quilt' of different sets of terms and conditions would persist indefinitely.

While market and institutional pressures and constraints were both in evidence, the integration processes were also clearly shaped by the organisational politics of the post-merger period. In *GlobalDrug*, for instance, while the shift to a globally integrated model largely reflected an assessment by senior managers of a growing need to co-ordinate operations across borders in a sector where products closely resemble one another, the dominance of the Anglo-American model was perceived by some as being at odds with the portrayal of the deal as a 'merger of equals'. Respondents variously reported that 'it was not a merger, it was a takeover by *USDrug*', and that while early on it was 'communicated as a merger of equals', it soon became clear that it was the '*USDrug* legacy folks' who were 'driving the bus'. Some former *UKDrug* employees expressed this more strongly, one commenting that 'you can call it a merger of equals if you like but basically we're sold out'. Essentially, then, the process of integration reflected the fact that it was senior HR staff from the American party to the merger who had become the 'dominant coalition'.

Even in this case, however, there were limits to integration which were to some extent political. The comparison of the four plants in different countries revealed that there was a degree of variation at this level, as site HR (and other) managers used their familiarity with their particular circumstances to interpret policies in varied ways. On occasions, site HR managers would argue with the centre over the nature of a policy that caused them problems. One illustration of this was the use of 'contingent' staff. Following a legal ruling in the US, the British and American operations were not allowed to employ temporary staff continuously for more than 18 months. One of the British sites was experiencing a particularly busy time as a result of a number of product transfers, and after protracted protests from the site management team, a temporary exemption from this policy was allowed. A key lever in these arguments was that British law concerning the employment rights of temps employed continuously uses a different time threshold to that in the US, meaning that the 18-month period had no relevance to their situation.

The political obstacles to integration were also evident in the other cases. For instance, a key issue in *ITServices* was the need to reassure clients that the transfer of business into *ITServices* would not result in major changes to terms and conditions. One might expect the client not to be concerned about such changes for former employees, but in the public sector, the contracting out of professional staff has been highly contentious. To maximise its potential to win further contracts, *ITServices* needed to reassure the government that the transfers would be handled smoothly, avoiding protests from staff and unions. The need to keep the staff and unions, and therefore also the government, 'on board' meant that restructuring was not driven solely by a calculated assessment of where changes should ideally come, and management pragmatically accepted inherited practices.

This case illustrates the way in which the organisational politics of the post-merger period are inextricably tied up with firms' position in their product markets. Equally, we have seen how institutions can assist organisational actors to obstruct the process of post-merger integration where it challenges their interests. Thus, we have shown not only how market, institutional and micro-political factors are all in evidence but also how they are interrelated.

Rationalisation in the post-merger period

One of the most common justifications advanced by those proposing a merger is that there is scope for cost savings through rationalising duplicate functions. This is particularly the case in what Aguilera and Dencker (2004) call 'overcapacity M&As' that are justified mainly on the basis of the cost savings that will be realised, but in almost any merger there is some scope for rationalisations. Typically, these are spelt out in great detail with a timetable for how they will be achieved, in an attempt to convince corporate analysts that the plans are the product of a rational economic calculation that will be implemented systematically following the merger.

Among our case studies, *GlobalDrug* is the best example of a company that had promised substantial cost savings as a justification for the merger. Under considerable pressure from shareholders and financial analysts, senior management teams agreed on a target and identified three sources of cost savings as well as a three-year timetable in which they were to be realised. Thus, these promises were monitored by financial markets and so represented external constraints on the nature of the post-merger period, creating an imperative to deliver cost savings. One source of these was the closure of sites. Most firms in the pharmaceutical sector are characterised by excess manufacturing capacity and this had been true for both *USDrug* and *UKDrug* prior to the merger. Both firms had been running a rationalisation programme, but a constraint on their closure plans was that in pharmaceuticals, it can be difficult to serve a national market without a manufacturing presence in that country, meaning a below-capacity site may be kept open. The merger made it much easier to close plants because the firm now had more than one site in many countries. A target was set to reduce the number of sites by a third within three years.

While the financial markets maintained substantial pressure for this to be met, the fluctuations in product markets added a level of complexity to the closure programme. Specifically, one of the North American plants had been earmarked for closure and was in the process of being run down when a competitor experienced problems with the supply of a rival drug, enabling *GlobalDrug* to greatly expand production at the site concerned and keep it open longer than had been envisaged. At the end of our research, the site was still functioning and appeared to have been offered an indefinite stay of execution. In some of the other case studies, there were evidently constraints on rationalisations that stemmed from product market considerations. One illustration was in *FastFood*, which had made an acquisition of a chain of cafes, taking the firm into a new segment of the market. This distinctive role for the acquired firm, with the expertise and customer loyalty to the brand that went with it, ensured it was relatively free from the pressures of rationalisation. A related illustration was in *USPharma*, where one issue facing the company was how to integrate the sales forces that had previously been competing against one another. A constraint on unifying the sales teams, with attendant scope for redundancies, concerned the market contacts that the sales reps possessed, as each one had a set of relationships with doctors that the firm was reluctant to lose. This led to the integration of the teams being a slow process, with the consequent cost savings also being realised only very gradually. Another instance was where the acquisition took the firm into a new geographical product market. As we have seen previously, this was the case in *BritBank*, where the necessity of having a local presence in the market severely constrained the scope that the acquirer had to close or sell off parts of its acquisition.

The way that product markets are institutionalised represents a further constraint on firms' ability to rationalise their operations after international M&As, something that was very evident at *GlobalDrug*. The main illustration of this was the process of gaining regulatory approval for a site to produce a good for a specific national or regional market, and how this generated complications in closing sites and transferring work across them. It is a requirement in the pharmaceuticals sector that firms obtain separate regulatory approval for every single product that is transferred, a process that usually takes several months and can take as long as two years. Given that the rationalisation programme involved several hundred product transfers over three years, this became a massive task that slowed down the firm's attempts to close sites.

The nature of labour market institutions, of course, can also complicate a firm's rationalisation plans. Large manufacturing sites in most countries are heavily unionised and *GlobalDrug*'s are no exception, meaning that there have been many lengthy processes of negotiation and consultation over proposed closures. The labour market constraints on rationalisations were even more evident at *EuroFuel*. The merger that created this company had also led to there being many duplicate functions in each country and consequently considerable scope for rationalisation. However, the pace at which this occurred varied substantially across countries: in the UK, it took place relatively quickly and with modest concessions made to the concerns of employee representatives; in Germany, the changes in the post-merger period occurred more slowly and demonstrated the 'partnership' tradition evident in the country; and in France, the rationalisation programme became mired in lengthy, adversarial and legalistic bargaining.

If rationalisation in the period after international M&As is shaped by market and institutional pressures, then it is also an intensely political process. The consolidation of production in *GlobalDrug* was based around a system of 'site contracts' in which every site was categorised into one of three types: 'new product introduction sites' which developed new products; 'mature product sites' which produced high volume products; and 'tail product sites' which produced drugs in the decline phase or those being discontinued. In many cases, it was straightforward which category a plant would go into, but this was not always the case. One of the North American sites had products in different categories and was described as 'in the tail end of the middle category' and if they were not careful, they would 'fall into the final category'. Referring to another plant that supplies other pharmaceutical companies, one respondent remarked that 'maybe there is a fourth category, it does not fit into any of the three categories'. Thus, the allocation was not a clear-cut judgement, but one that was open to argument, and plants could utilise this ambiguity to their advantage.

Actors at site level could also exploit the fraught process of production transfers between sites. As we have seen, the requirement for approval from regulators meant that the process of closing sites was slow, and in this context sites could try to advance or defend their interests. Within certain regions of the company, pre-existing trading relationships appeared to have led to sites forming alliances, helping each other by passing work between sites, and assisting those that looked vulnerable to stay open. While disrupting the formal closure programme, this was considered fair and legitimate by those engaging in the alliances. In contrast, there were also indications of tensions between sites over formal product transfers. One respondent described his site as a good 'group player' but complained that it had been let down by other sites failing to manage the transfer process competently. In this context, it is not surprising that there was significant lobbying from sites concerning the outcome of the review of site contracts. One respondent argued that the process in which sites were involved in a 'site impact assessment' concerning the consequences of a product transfer was subject to considerable 'lobbying and influencing'. Another suggested that sites sometimes submitted 'skewed' data in order to get products transferred to them, while others stressed the importance of sites being 'politically aware' and needing to 'fight your corner'.

If the political manoeuvreing took place within structural constraints in *GlobalDrug* with clear criteria set by the HQ, it was altogether more chaotic in one of the other case study organisations. In *TeleCo*, a specialist Anglo-American IT company which had grown rapidly through a string of acquisitions, rather than any plans being put in place for how individuals would be moved around between different business units and sites following the acquisition, many in the acquired organisation were 'cherry-picked' on an opportunistic basis by business unit managers from the acquiring company. This led to widespread dissatisfaction, with 20 out of the 350 acquired employees bringing grievance cases against the company on the basis that opportunities for moving into new posts had not been open or fair. It was clear that HR had been marginalised throughout the acquisition and HR managers were highly critical of the entire process: 'If you want to see how *not* to handle an acquisition, you've come to the right place' was how one put it. The way in which decisions were taken with little or no HR involvement could arguably be linked to the problems that ensued; as well as the grievance cases, the company was apparently in breach of TUPE regulations on consultation and the protection of basic terms and conditions, and was lucky to escape a series of tribunal cases.

In sum, we have seen that markets both create pressures for rationalisation and present obstacles to this process, while institutions condition the speed and consequences of restructuring. However, the rationalisation process in the post-merger period is not simply determined by market and institutional factors but is also an intensely political process in which the interests of many actors are challenged, leading them to respond with whatever resources they have at their disposal to influence outcomes. Following the logic of the framework on which this article is based, we have also seen how these factors are interrelated, such as in the way actors exploit fluctuations in markets and the distinctiveness of institutions for their own gain.

CONCLUSIONS

The article demonstrates that two key aspects of international M&As – the integration of HR strategies and the rationalisations that occur following a merger – should be seen as the outcome of the interaction of market and institutional contingencies, and the complexities of organisational politics. Moreover, we have seen that the nature of this interaction varies according to the pre-existing features of each party to the merger, particularly the strategies that they were following. What are the practical implications of this for those in HR?

To some extent, international M&As represent opportunities for HR practitioners. We noted at the outset that a great deal is 'up for grabs' during international M&As and the analysis has indicated ways in which this is evident for the HR function. One opportunity is to use the merger as a basis to re-evaluate the company's HR strategy and to use it to change direction, perhaps through a benchmarking exercise. Thus, an international M&A might serve as the stimulus for a radical departure from pre-existing strategy and practices. However, the analysis has also indicated the constraints at play in this respect; merger processes are messy and grand designs to change strategy may be implemented only partially. Another opportunity is that an international merger or acquisition can lead to a plan for rationalisations that promises to raise the overall efficiency of the combined firm. The problem with this optimistic view is that rationalisation processes are complicated by the need to take account of myriad institutional constraints and the inevitable ambiguities that can be exploited by those looking to protect their own positions. In other words, the opportunities presented are accompanied by a set of constraints.

For HR, the potential opportunities presented by international M&As may be accompanied not only by constraints but also by dangers. For instance, we have seen that mergers present the opportunity for a group to assert control over their counterparts in the other party to the merger, thereby establishing itself as part of the dominant coalition, with the enhanced status and claim on resources that go with this. A related opportunity is that the HR function as a whole may seek to use a merger to enhance its position within the firm, for example, through emphasising its position as a unique source of expertise on issues such as cultural integration and compliance with employment law. The obvious corollary, though, is that this also presents a number of threats: HR in one party to the merger may find itself outside the dominant coalition of course, while the function as a whole may be marginalised during the merger process.

In sum, the article contributes to the growing body of work examining HR issues in MNCs which examines the interaction between structure and agency, and we have applied this to the particular issue of international M&As. We have sought to develop our understanding of this phenomenon by applying a framework which integrates the insights of market-based, institutionalist and micro-political approaches. This approach rejects the rationalistic, unitary view of the firm, which sees strategy as driven solely by top management policy, highlighting instead the often competing interests and objectives guiding the behaviour of actors at various locales within the organisation. The modification and hybridisation of management strategy and HR policy is a routine occurrence in MNCs, and the international merger process is one which throws the complexity of these dynamics into particularly sharp relief.

Note

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