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The role of human resource management in cross-border mergers and acquisitions

Ruth V. Aguilera and John C. Dencker

Abstract Cross-border mergers and acquisitions (M&As) have become the dominant mode of growth for firms seeking competitive advantage in an increasingly complex and global business economy. Although human resource management (HRM) can play a value-adding role in the merger process, existing research and evidence does not clearly demonstrate how it can do so. This paper addresses the neglected human side of M&As by providing a strategic fit framework to assess the link between M&A strategy and HRM strategy. Because cross-border M&As are of an order of magnitude more complex than domestic mergers, we examine contingencies in national contexts that influence outcomes in the merger process. We draw on recent empirical evidence to highlight HRM roles in terms of resources, processes and values that reflect the influence of both strategic fit and national context in the integration stage of cross-border M&A.

Keywords Human resource management; mergers and acquisitions; corporate governance; international management; varieties of capitalism.

Introduction

Mergers and acquisitions (M&As) have become the dominant mode of growth for firms seeking competitive advantage in an increasingly complex and global business economy (Adler, 1997). Nevertheless, M&As are beset by numerous problems (Newburry and Zeira, 1997), with 50 per cent of domestic acquisitions – and 70 per cent of cross-border acquisitions – failing to produce intended results (Capron, 1999). Scholars have examined these problems in terms of strategic market entry choice (Hennart and Park, 1993), market valuations (Jensen and Ruback, 1983), value creation (Haspeslagh and Jemison, 1991) and firm performance (Galbraith and Stiles, 1984; Chatterjee, 1986; Blackburn and Lang, 1989), finding that difficulties in M&As trace to a lack of a compelling strategic rationale, unrealistic expectations of possible synergies and paying too much for acquired firms. However, although financial and strategic studies have significantly increased our knowledge of M&As, this research is incomplete, in large measure due to a failure to account for personnel issues.

Frequent calls within the human resource management field and international business, to study the human side of international M&As, have generated studies exploring the role of HRM in M&As, such as studies of personnel issues surrounding M&As that focus on top management turnover following an acquisition (Walsh, 1988; Krug and Hegarty, 2001).

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However, most of the existing research within the HRM field relies on anecdotal evidence of personnel issues in M&As, resulting in little systematic theory (Hunt and Downing, 1990; Buono and Bowditch, 1989; Marks and Mirvis, 1998) that focuses on domestic M&As. In part, this lack of attention with regard to HRM in M&As stems from the marginal role that CEOs have designated to the HRM function in M&As, particularly in the early stages of the M&A process. Perhaps reflecting the sometimes low relative standing of the personnel function within the firm, the M&A literature has focused primarily on financial due diligence and strategic issues in the merger process, with HRM being an afterthought that becomes relevant only in the integration stage of an M&A when the merger is implemented.

The failure to account for personnel issues is somewhat surprising since HRM has the potential to play an important role in M&A integration, for example, by managing personnel conflict, reinforcing the new HRM system and corporate culture and providing leadership and communication to reduce turnover. Yet, the literature does not tackle from a theoretical point of view how HRM systems and practices create value by helping to realize potential post-merger synergies. We argue that the strategic literature provides a useful starting point, since the role of HRM in an M&A will be conditional upon the strategic rationale chosen by the merging firms. In particular, HRM strategies in the integration stage of an M&A should be tightly aligned to the undertaken M&A strategy in a manner that enhances the likelihood of successful M&A outcomes. For example, staffing decisions will differ depending on whether the M&A strategy requires the elimination of redundancies or, conversely, the preservation of human capital and knowledge. We examine the fit between M&A strategy and HR strategy by looking at the effects of organizational resources, processes and values in the M&A integration stage.

An additional difficulty for HRM in merger integration is that realizing synergies is often much easier in domestic M&As than in cross-border M&As. In particular, given difficulties in managing fit among various HRM practices in individual firms (Wright and Snell, 1998), integrating HRM systems from different national and organizational contexts is likely to create a myriad of uncertainties. In principle, we would agree that the uniqueness of national environments makes the role of HRM in cross-border M&As differ significantly from M&As occurring within countries. Without claiming a convergence argument, we acknowledge that differences between firms in the international arena are largely a matter of degree, as pointed out by Sparrow *et al.* (1994). That is, even though evidence indicates that many HRM practices in cross-border M&As tend to converge on a single best model – making the role of HRM more predictable – it also demonstrates that other practices implemented in the integration stage retain the country-specific characteristics of one of the merging firms (Child *et al.*, 2001; Faulkner *et al.*, 2002). As Child and colleagues note, the issue of integration ‘involves considering not just “how much?” but also “on the basis of which practice?”’ (2001: 17).

In effect, M&A integration is especially difficult in cross-border M&As due to the embeddedness of firms undergoing acquisitions in their respective national contexts. Thus, in order to understand the role that HRM plays in contributing to the success of cross-border M&As, it is important to consider not only the fit between M&A strategy and HRM strategy, but also the contingencies at the national level in the merger process. By so doing, we can obtain an assessment of ‘the “fit” between environmental conditions and the structure and strategies that firms put in place’ (Child *et al.*, 2003: 244).

National contexts have been categorized along many dimensions, such as legal (La Porta *et al.*, 1998), cultural (Hofstede, 1980), financial (Zysman, 1983), employment systems (Marsden, 1999), economic organization and control (Whitley, 1999) or corporate governance regimes (Aguilera and Jackson, 2003). Following Hall and Soskice

(2001), we divide countries into two broad categories that encompass most economic and social aspects of firm life. We propose that, when the two merging firms belong to the same country group, HRM strategic fit will be different than when the two merging firms belong to two different country groups.

In sum, we suggest that it is incumbent to further understand not only the ‘what’ and ‘how’ of acquisition strategy – such as the role the HRM function plays – but also ‘which’ HRM elements lead to expected outcomes for cross-border merged firms. This paper is a theoretical attempt to get at these issues. We begin by analysing strategic rationales for different types of M&As, examining the fit between M&A strategies and HRM strategies. We then consider how personnel issues are contingent upon the embeddedness of mergers within the broader institutional context. Based on these contingencies and strategies, we specify broad roles of HRM in the integration stage of a cross-border M&A as they relate to organizational resources, processes and values when a merger takes place within as well as across national groups. Finally, because the HRM practices that we discuss do not exhaust all possible types, we conclude by discussing the validity of our framework in other contexts.

Strategic fit between M&As and HRM

The strategic HRM literature posits the importance of aligning a firm’s HRM strategy to its business strategy (Fombrun *et al.*, 1984; Schuler and Jackson, 1987). Based on Chandler’s (1962) notion that organizational structure follows an organization’s strategy, Fombrun and colleagues (1984) emphasize that there is a tight fit between strategy, structure and HRM, with strategy being the dominant force. Schuler and Jackson (1987) confirm this strategic fit notion, showing that firms that differed in their strategies would use the same HRM practices in different ways and that firms that changed strategies were likely to change their HRM practices. Similarly, Sanz-Valle and colleagues (1999) find a link between some HRM practices and business strategy in a study of Spanish companies.

We argue that, for merging firms to integrate successfully, they need to align their HRM strategy to their M&A strategy. Thus, it is important to have a clear understanding of M&A strategies to be able to specify the role that HRM should play. Moreover, in order to consider the fit between M&A and HRM strategies, and to help make sense of HRM challenges in the different types of M&As, we rely on three conceptual tools: resources, processes and values (Bower, 2001). *Resources* are defined as tangible assets, such as money and people, and intangible assets, such as brands and relationships. In the context of HRM in M&As, decisions about resources involve staffing and retention issues, with termination decisions being particularly important. *Processes* refer to activities that firms use to convert the resources into valuable goods and services. For example, in our case, these would be training and development programmes as well as appraisal and rewards systems. Finally, *values* are the way in which employees think about what they do and why they do it. Values shape employees’ priorities and decision-making.

Below, we analyse key issues in the strategic literature with regard to M&As in light of recent research by Bower (2001) and on M&A strategies. We identify the fit between this M&A typology and HRM strategies and practices by using the resources, processes and values framework.

Strategies for M&As

Firms can undertake a number of common M&A strategies in order to obtain competitive advantage. For example, scholars have profitably used the Federal Trade Commission

(FTC) typology of M&As developed in the 1970s – namely horizontal, vertical, product extension, market extension and unrelated M&As (Federal Trade Commission, 1975) – to study the M&A process (Buono and Bowditch, 1989). However, the merger climate of the 1990s has led to the creation of new forms of M&A strategies that are not adequately captured in the FTC framework. Thus, in this article we refer to Bower's (2001) recent strategic M&A typology, which was established by a group of scholars who conducted an extensive yearlong study of firms involved in M&As. This typology captures effectively the nature of cross-border M&As that were occurring during the 1990s, and it allows us to provide the necessary theoretical link between business and HRM strategies through considering decisions of firms involved in this transaction process.

Bower (2001) proposes five distinct M&A strategies: (1) the overcapacity M&A; (2) the geographic roll-up M&A; (3) the product or market extension M&A; (4) the M&A as R&D; and (5) the industry convergence M&A. We discuss each of them in turn, highlighting the potential general HRM implications in terms of resources, processes and values.

An *overcapacity M&A* occurs when an acquiring company seeks to eliminate excess capacity to create a more efficient corporation. In effect, the acquiring company's strategic goal is to achieve economies of scale in order to gain market share, doing so in part by eliminating human resources. This type of M&A often arises in oligopolistic industries characterized by excess capacity and involves firms of similar size. For example, there have been a number of overcapacity M&As in the petroleum sector (e.g. British Petroleum's acquisition of Amoco) and the automobile sector (e.g. Daimler's acquisition of Chrysler). An important concern in this type of M&A is that, although processes and values of the merging entities are frequently similar, relative status differences stemming from a merger of near equals can create problems in M&A integration.

A *geographic roll-up* M&A takes place when companies seek to expand geographically, often with operating units remaining at the local level. In many instances, large companies acquire smaller companies that they try to keep intact and therefore these firms tend to retain local managers. These types of M&As are common in the banking sector, as exemplified by Banc One's acquisitions of several regional banks. Although these M&As are similar to overcapacity M&As in that both involve consolidation of businesses, they differ significantly in that geographic roll-up M&As are more likely to occur at an earlier point in an industry's life-cycle. Strategically, roll-ups 'are designed to achieve economies of scale and scope and are associated with the building of industry giants' (Bower, 2001: 98), while overcapacity M&As seek to reduce capacity and duplication. Although in geographic roll-up M&As human resources are less disposable, the processes and values of the merging entities are likely to differ more than in the overcapacity M&A. Nevertheless, since the size of the acquirer tends to be greater than that of the acquired firm, conflict stemming from status differences is possibly not as prevalent as in the overcapacity M&A.

A *product* or *market extension M&A* involves expanding product lines or expanding geographically across borders. This type of M&A occurs when the acquiring and acquired companies are functionally related in production and/or distribution but sell products that do not compete directly with one another, or when a company seeks to diversify geographically, such as when two companies manufacture the same product, yet sell it in different markets (Buono and Bowditch, 1989: 63). In effect, in this type of M&A, firms seek to achieve long-term strategic goals by investing in less saturated markets – often doing so to obtain economies of scale necessary for global competition (Weston *et al.*, 2001: 350). The likelihood of success of product or market extension

M&As depends on the relative size of the merging firms and the experience of the acquired firm in M&As. For example, large firms such as GE acquire many relatively small firms, thereby increasing their chances of subsequent successful mergers.

Similarly to in the geographic roll-up M&A, human resources in product or market extension M&As frequently remain unchanged in the new entity. However, in product or market extension mergers, some firms have difficulties in changing the processes and values of acquired firms, particularly in cross-border M&As. For example, Marks & Spencer experienced geographical distribution problems when it acquired the Canadian firm Peoples Department Stores (Bower, 2001). By contrast, when GE acquired the Italian engine producer Nuovo Pignone in 1992, it introduced its systems only sequentially over time (Bower, 2001). What GE felt was most crucial in the short term was for Nuovo Pignone's managers to use GE's resources to develop their business.

An *M&A as a substitute for R&D* occurs when acquisitions are used as a means of gaining access to new R&D knowledge or technological capabilities by acquiring innovative firms rather than producing the knowledge in-house (Granstrand and Sjolander, 1990). Acquiring firms in this type of M&A tend to be larger than the acquired firm, and sometimes have significant practical merger experience, as in the case of Microsoft and Cisco Systems.

In an M&A as a substitute for R&D, the retention of human resources and knowledge is a paramount goal. Processes and values of the newly formed entity will, however, probably need to be changed, a complex proposition since the entrepreneurial employees often feel their values are constrained by the more bureaucratic structure of the acquiring firm. The success of this type of cross-border M&A will therefore depend on the acquired firm's integration capabilities and the acquiring firm's learning capacity. Integration issues will, however, be industry contingent. For example, the product development cycle is often much shorter in information technology (IT) firms than in pharmaceutical firms, indicating the need for more rapid integration in M&As in the IT industry.

An *industry convergence M&A* involves creating a new industry from existing industries whose boundaries are eroding. An example of this type of M&A is the Viacom acquisition of Paramount and Blockbuster. Although this type of merger will probably increase in the future, it is rare and not yet fully understood, making it difficult to analyse. In addition, acquired companies in this type of merger are typically given wide berth, perhaps to a greater extent than in the M&As as a substitute for R&D, with integration driven by a need to create value rather than a desire to create a symmetrical organization.

In sum, the brief discussion above demonstrates that each M&A strategy would involve different HRM strategies. In the next section, we include another layer of complexity by bringing in the influence of the national context.

The environmental context of cross-border M&As

Contingency theory suggests that firm strategies and structures will be dependent upon environmental conditions, the more varied the environment the more differentiated the structure (Lawrence and Lorsch, 1967). As certain parts of an organization are more open to environmental influences, the effect of the broader context on organizational structure will vary within organizations. For example, Schuler and Jackson (1987) argue that managerial practices need to be aligned with environmental demands so that desired work behaviours arise, and Schuler (2001) shows how this notion can be effectively implemented in international joint ventures.

In effect, organizations are embedded in national and supra-national environments that can provide a source of competitive advantage for, as well as act as a constraint on,

cross-border M&As. For example, environments influence business practices through legal systems such as the case of the European Commission, which objected to the $37 million marriage between two American telephone companies, MCI and WorldCom. The result is that organizations do not operate in a vacuum; rather, they are located within certain national boundaries. The key therefore is to discern when and how the national environment influences cross-border M&As.

The notion of embeddedness suggests that environmental characteristics such as institutions or culture influence organizational strategies and structures. National culture is often reflected in a country's organizational and managerial practices, such as individual performance awards, team-oriented, short-term results and decentralized and informal organizational structures (Schneider, 1989). Countries perceived to be similar or compatible along national cultural dimensions and business styles tend to engage in a higher rate of business partnerships among themselves (Cartwright and Cooper, 1993). Firms that engage in cross-border M&As therefore need to be aware of the possible consequences of national cultural differences, as is suggested by cross-cultural managerial studies showing that behaviours such as individualism and openness to foreign cultures differ across national boundaries (Adler *et al.*, 1986) and might influence cross-border M&As (Gersten *et al.*, 1998).

National cultures are part of a broader institutional environment that also influences how much room for transformation that merging firms have. National institutional effects include but are not limited to: the country characteristics of the state; the financial system; education and training systems; labour–management relations (Berger and Dore, 1996; Hollingsworth and Boyer, 1997; Whitley and Kristensen, 1997). All of these nationally embedded institutional settings will differ across countries, providing country-specific firm capabilities and performance profiles (Porter, 1990; Sorge, 1991; Whitley, 1999). Consequently, when two firms belonging to two different countries merge, we should expect some influence from the national environment, although the contingent environmental effects will depend on how different these two countries are along a number of important dimensions. At an abstract level, nations can be divided into two types based on the institutions characterizing their financial and labour market systems: liberal market economies (LME) and co-ordinated market economies (CME) (Hall and Soskice, 2001; Gospel and Pendleton, 2003).

LME countries are distinguished by competitive market arrangements, with supply and demand forces having a large impact on organizational outcomes and processes. In terms of financial systems, LMEs often are seen as 'shareholder value' nations, with performance measured by market value, returns evaluated on a short-term basis and the state rarely intervening in the economy. In effect, in these nations, the market for corporate governance focuses on current earnings, with regulatory regimes being tolerant of M&As. Hall and Soskice (2001) note that, among OECD nations, the following countries can be classified as LMEs: Britain, the US, Australia, Canada, New Zealand and Ireland.

In contrast to LMEs, CMEs – such as Germany, Japan, Switzerland and the Benelux and Scandinavian countries – are characterized by non-market relationships (Hall and Soskice, 2001). In these 'stakeholder capitalism' national models, employees, suppliers, customers and financial institutions are part of the context within which the overall firm is judged. The market for corporate governance is such that firms are not entirely dependent on publicly available financial data or current returns. Thus, firms can be more long-term oriented and the network of relationships among stakeholders will restrict M&As in a number of ways.

A recent example highlighting the differences in corporate governance between LMEs and CMEs is the successful hostile takeover bid of Mannesmann (German) by Vodafone (English) in 1999. Vodafone not only had to deal with codetermination, but also with an entirely different ownership structure influenced by banks, opaque accounting and disclosure rules, a two-tiered board structure with a strong orientation towards consensus decision-making, different company laws, a German corporate culture with a strong orientation towards production and engineering, and a relatively weak 'equity culture' (Hopner and Jackson, 2001).

Adjustments to the national institutional environment are also salient in the HRM field. For instance, HRM practices in CMEs 'include more restricted employer autonomy, difficult hiring and firing decisions, lower geographic and professional employee mobility, and a stronger link between type of education and career progression' (Sparrow *et al.*, 1994: 286). In CMEs, firms are obligated to protect employee rights, collective bargaining tends to be co-ordinated, minority shareholders are poorly protected in favour of large owners and corporate returns tend to be measured on a long-term basis. For instance, in German industrial organization, works councils police collective bargaining agreements and training policies inside the companies and have a legal right to intervene in work reorganization (Casper and Hancké, 1999). In addition, German workers tend to have flexible portable skills learned through the vocational training system. By contrast, in LMEs, industrial relations are characterized primarily by open labour market relationships, with firms having the freedom to hire and fire employees almost at will and collective bargaining being uncoordinated and taking place at the firm level. Training and education in LMEs frequently occurs in schools and universities, with skills acquired by employees being relatively general, in part because investment in firm-specific skills can be lost due to poaching.

In the next section, we examine how M&A strategies determine the role of the HRM function for merged entities in these two main national groups: liberal market economies (LME) and co-ordinated market economies (CME). Although the countries we examine do not exhaust all possible types, firms within these market economies have undertaken the majority of large cross-border M&As in the industrialized world. Perhaps as a result, evidence on HRM practices and policies that are enacted during the M&A process are most prevalent for countries in these two economic types (Larsson and Finkelstein, 1999; Birkinshaw and Bresman, 2000; Child *et al.*, 2001; Faulkner *et al.*, 2002).

The role of HRM in cross-border M&As

Before conducting our analysis, we briefly review the nature of the merger process. The literature has dissected the M&A process into three main stages: pre-announcement; pre-merger; and integration. The pre-announcement stage involves due diligence. Issues discussed among potential merging firms in this stage are M&A strategy and the financial structure of the deal. The pre-merger stage occurs between the announcement of the merger and its closing date and includes planning for the integration, such as communicating expected roles in the newly formed entity. The integration stage implies the physical integration of the various elements of the M&A following the closing date, including personnel.

In theory, HRM can have an influence on the success of M&As in each stage of the process. For example, during the pre-merger stages, HRM tends to focus on ensuring legal compliance, such as with regard to equal opportunity and collective bargaining agreements (Mirvis and Marks, 1992). HRM can also begin the planning process following deal announcement, for instance by managing retention agreements and

assessing compensation differences between the potentially merging entities. Nevertheless, evidence and practice indicate that the main role in which HR can influence M&As is in the integration stage, when M&A practices and policies are implemented. As Child and colleagues (2001) state, the attention 'to human resources is particularly important following an acquisition, the more so if cultural differences are involved'. As noted, these differences will affect many of the firm practices and policies, often due to variation in the nature of integration across countries. In the following section, we examine the role of HR in the integration phase of cross-border M&As.

Integration stage

An important consideration for HRM in implementing M&As is the level and speed of integration. Two key dimensions identified by Haspeslagh and Jemison (1991) are important in this regard: the need for strategic interdependence or fit and the need for structural autonomy. Based on these two dimensions, they created a four-fold typology of the degree of integration, which also depends on the size of the acquiring firm relative to the acquired firm. With respect to cross-border M&As, Child and colleagues (2001) find differing levels of integration across countries, ranging from no integration, to partial integration, to full integration. For example, they demonstrate that firms in the US and the UK integrate their subsidiaries to a greater extent than do firms in Japan, Germany and France. Similar cross-country variation may be found in terms of integration speed, as Empson (2000) argues that gradual integration is important for success in mergers between professional service firms.

We examine the role of HRM in the integration phase of cross-border M&As through the lens of the resources, processes and values framework. This framework encompasses HRM practices and policies, such as Poole's (1990) culture, organizational structure, performance management, resources and communication and corporate responsibility categories and Pucik's (1988) HR planning, staffing, training and development, appraisal and rewards and organizational design and control dimensions. As the number of HRM practices involved in an M&A can be endless, we pay particular attention to staffing and retention when we refer to *resources*, to training and development, appraisal and reward, as well as other HRM systems and practices when we refer to *processes*, and to national and organizational culture at work when we refer to *values*. In addition, we focus on the following M&A strategies: overcapacity M&As, product or market extension M&As and M&A as R&D. We do not discuss the geographic roll-up M&A because these mergers rarely take place across borders, and we do not discuss the industry convergence M&A as it is relatively new and occurs infrequently. For comparative purposes, we begin our analysis of each M&A strategy within the same country group (i.e. CME–CME or LME–LME) and continue with a discussion of M&A strategy between firms belonging to different national groups (i.e. CME–LME or LME–CME). This systematic comparison of the three M&A strategies, as exemplified in Table 1, allows us to draw sharp comparisons of how national contexts influence cross-border M&As.

Overcapacity M&As

Resources In overcapacity M&As, large-scale lay-offs are inevitable. Thus, the HRM function will have to decide quickly upon a downsizing strategy, with planning and staffing duties – such as outplacement programmes – critical to the success of the merger. The focus on human resources is not, however, solely on downsizing, as retention issues might also play a key role. For example, Walsh (1988) and Buono and Bowditch (1989) argue that top management turnover will be higher in related mergers

Table 1 *HR resources, processes and values in cross-border mergers and acquisitions in different market economies*

	M&A strategy		
HR	*Overcapacity*	*Product or market extension*	*M&A as R&D*
Resources	• Staffing reduction limited by CME regulations and institutions • Relative ease of lay-offs encourages greater incidence of CME–LME M&As relative to LME–CME	• Expect few lay-offs and focus on retention	• Retention as overriding goal • Hold on to talent and embedded knowledge • Retention dependent on ability to change processes
Processes	• Process differences exacerbated in cross-border M&A • Pay for performance use increases, but varies according to market system of acquiring firm • Use of training systems increases • Use of teams increases	• Processes can be transformed slowly if acquiring firm is experienced and much larger than acquired firm • Experience varies by country, with LME firms integrating more than CME firms • Increased training, especially when acquiring firm is in CME	• Need for assimilation requires change of all processes • Speed of assimilation varies by a) industry b) nationality of acquiring firm • Limits on use of contingent pay • Integration varies by industry
Values	• Values differences create host of problems • Merger of equals exacerbates conflict over control	• Values differences can be minimized through slow assimilation • Communication important • LME firms more likely to reproduce their values than CME firms	• Values less different in high-technology sector • Universal codified knowledge

(e.g. overcapacity M&As) than in unrelated ones because management is familiar with the acquired firm's business in related mergers.

Downsizing in overcapacity M&As will also be contingent on the countries involved in the M&A, with LMEs having fewer institutional constraints on lay-offs than CMEs – although some variation exists in the use of lay-offs within market economies. For example, within LMEs, firms in the US tend to have a more short-term focus with respect to recruitment and termination than do UK firms (Child *et al.*, 2001). However, in the case of M&As involving countries from two different market economies, acquiring firms will be more constrained when the acquired firm is in a CME, in large part because of legal protection offered in these countries to employees, but also due to a long-term view of employment relations among actors in these labour markets.

Processes In domestic overcapacity M&As, there is often little change made to HRM processes. For example, Child *et al.* (2001: 89) show that, in mergers between UK firms, the acquiring firm made relatively few changes to their practices relative to changes made by foreign firms that purchased UK firms. Similarly, when firms belong to the same market economy type, they will also experience little transformation in processes. Thus, UK firms were found to be closely related to US firms in the nature of their HRM systems, such as the use of pay for performance systems, as well as other practices and management styles (Child *et al.*, 2001: 178). These similarities stem in part from common values held by firms that are located in the same country type.

When an M&A occurs across market economies, strategic fit issues become more complex, as exemplified in the well-known example of a CME firm purchasing an LME firm – the Daimler-Chrysler M&A. This merger shows similar characteristics to domestic overcapacity M&As in that it was a merger of near equals, with conflict arising over numerous issues, including HRM. For example, Daimler-Benz paid executives much less than did Chrysler, making it necessary to adjust the various performance systems. This issue also highlights the contingency of transformation processes on the nationality of the acquiring firm, with firms in LMEs more likely to change processes in acquired firms than firms in CMEs. In the Daimler-Chrysler M&A, Daimler executives felt that it would be impossible to raise the pay of German executives to the level received by the American executives, in no small part because of pressures that would arise from German works councils. Nevertheless, there is some evidence of convergence among other practices – particularly in terms of increased use of teams and training systems – for LME firms in cross-border M&As, as Child and colleagues (2001) find in the case of Japanese and German CME firms that acquired firms in the UK.

Values Bower (2001) notes that overcapacity M&As are predominantly mergers of near equals, with slight differences in values creating conflict and therefore difficulties in integrating the merging firms. In particular, overcapacity M&As can be difficult to accomplish because of the entrenched processes and values of the firms in the industries in which overcapacity is common. For example, problems may occur in this type of merger strategy because the 'loser' in this situation may make things difficult for the acquiring firm.

The Daimler-Chrysler merger highlights how national differences across market economies can exacerbate conflict stemming from a merger of near equals. For example, typical of large German firms, Daimler was a bureaucratic organization that relied heavily on rules and procedures to manage employees. By contrast, Chrysler had a more decentralized decision-making apparatus and was more flexible. Thus, in addition to national culture differences (e.g. having wine with lunch), variation in ways of managing and organizational values created problems in the human dimension of this merger

(Vlasic and Stertz, 2000). Obviously, in M&As, plans may change as the merger process unfolds. However, as seems to be evident in the Daimler-Chrysler merger, top managers at Daimler Benz knew from the beginning that they would eventually possess all top positions in the merged entity, but neglected to make this known until a few years into the merger. As a result, a number of key executives have left the firm, highlighting the important role that both trust and communication play in the merger process, particularly in M&As across market economies.

Product or market extension M&As

Resources In terms of human resources, HRM strategies in product or market extension M&As often involve lay-offs, although the focus will be primarily on retention. That is, lay-offs will not be the overriding goal of acquiring firms since there tends to be little overlap between firms due to the strategic intent of the merger, which involves purchasing new product lines or expanding into new markets.

As in overcapacity M&As, there is some variation across countries in the extent of lay-offs in product or market extension M&As. For example, within LMEs, firms tend to be more short-term oriented towards resources, with US firms that acquired UK firms more likely to reduce staff than in acquisitions across market economies (Child *et al.*, 2001). By contrast, Child and colleagues show that when CME firms purchase LME firms, they take a *laissez faire* attitude, with German and Japanese firms tending to leave the UK acquisitions as they were, reflecting the CME long-term orientation to staffing and, to a certain extent, cultural traits. Although there is less empirical evidence for the case of acquisitions of CME firms by LME firms, there is perhaps a discernible trend towards retention of human resources. For example, GE often takes a long-term focus when it undertakes cross-border M&As, in part as a response to past negative experiences. The protection offered to employees in CMEs also plays a role in this regard.

Processes There is more variation in processes across firms in product or market extension M&As than in overcapacity M&As, thus suggesting the need for altering business and HRM systems and practices. That is, although the products among merging firms do not overlap, processes related to the manufacture and distribution of these products may necessitate some changes in other systems. For example, advertising and distribution processes in Quaker Oats were unsuited for Snapple's product line (Bower, 2001), with these systems being changed in an attempt to make the merger work. This tendency to integrate processes held for M&As within LMEs, with US firms transforming a number of HRM practices in UK firms, for example, by reducing the number of managerial hierarchical levels and by increasing the use of job rotation (Child *et al.*, 2001).

In general, the desire for process transformation will reflect the market economy of the acquiring firm, with LMEs much more likely to integrate an acquired company fully relative to CMEs. As noted, the literature shows that Japanese and German firms were more likely to bring acquired UK firms into the fold only slowly, if at all, although they were more likely to increase the use of training than acquiring firms from LMEs. For example, Child and colleagues (2001) illustrate how a German pharmaceutical firm obtained a new product line by acquiring a UK firm. The UK firm retained autonomy over many decisions and practices, but the German firm did set up a training programme in the UK firm.

Obviously, the long-term focus by CME acquiring firms reflects country-specific characteristics, but it may also stem from a lack of experience on the part of acquiring firm, as was the case for a number of Japanese acquisitions of UK firms in the Child

study. Similarly, acquisitions of CME firms by LME firms involve less integration than acquisitions of LME firms by other LME firms. For example, GE takes a more gradual approach to transforming processes in acquisitions of CME firms than they do in domestic acquisitions.

Values Bower notes that organizational values tend to differ more for firms engaged in product or market extension M&As compared to firms engaged in overcapacity M&As. However, conflict over resources and processes may be relatively lower in product or market extension M&As, especially when the acquiring firm is larger than the acquired firm. For instance, although Japanese firms are known for their collective-oriented values, empirical evidence indicates that they are unlikely to force those values on acquired firms, taking instead a subtle or soft approach to integration (Child *et al.*, 2001). With respect to acquisitions of CME firms by LME firms, the GE case illustrates the desire on the part of large, experienced firms to refrain from imposing values on the acquired firm, and instead bringing processes in line with the GE way slowly over time. Conversely, US firms were more likely to reproduce their values in acquisitions of other LME firms.

M&A as a substitute for R&D

Resources In an M&A as a substitute for R&D, a critical component of the HRM function is to retain valued employees. In this type of M&A strategy, acquiring firms will purchase a company in order to obtain knowledge that is held by employees of the acquired firm. The HRM function's crucial role will therefore be to hold on to human and social capital. Retention can be a challenge though, since employees in acquired firms often receive a large remuneration from their stock sale, as was the case in many M&As in IT firms recently.

When the M&A as a substitute for R&D involves firms from different market economy types, the focus in terms of resources will be on employee retention to much the same extent as in domestic M&As of this type. For example, a German manufacturing firm that acquired an entrepreneurial UK firm retained the entrepreneur (Child *et al.*, 2001). Similarly, three Swedish CME firms made a concerted effort to retain employees in acquisitions of US and UK R&D firms, with retention percentages ranging from 90 to 100 per cent of acquired employees (Birkinshaw and Bresman, 2000). This finding was also true for firms in LMEs that acquired CME firms. For example, in Microsoft's purchase of the Japanese firm TITUS, Microsoft strongly supported the management team they acquired, with a similar outcome in Cisco System's acquisition of the Israeli firm Pentacom.

Processes A key factor in obtaining a successful M&A as a substitute for R&D is that HRM will be called on to set up systems to facilitate the transfer of knowledge from the acquired firm to the acquiring firm. Specifically, the HRM function should enable the lines of communication and develop learning processes. In addition, Bower (2001) notes that the M&A as a substitute for R&D allows little time for slow assimilation, because the terrain in R&D shifts rather quickly, particularly in IT-related M&As. Thus, HRM may need to bring the new systems online quickly. One firm that does an exceptional job in assimilating new employees is Cisco Systems. As Child *et al.* (2001: 3) point out, in the merger between Cisco and Cerent Corporation, Cisco utilized a transition team that 'mapped' Cerent employees into jobs at Cisco, and communicated this information to these employees. Although integration is costly for Cisco Systems, it prefers to acquire knowledge through M&As if the development cycle is longer than six months.

It is important to note that the speed of assimilation will be industry specific as well as specific to the country of the acquiring firm. For example, the development cycle in pharmaceutical firms is normally slower than it is in IT firms, as is the case in acquisitions of LME firms by CME firms. Specifically, CME firms that engaged in cross-border M&As with LME firms as a substitute for R&D tend to leave the processes in the acquired company as they were. A risk in this hands-off acquisition style with respect to an M&A as a substitute for R&D is that the acquiring firm may lose out on potential synergies, as was the case for a Japanese firm that bought a UK pharmaceutical firm (Child *et al.*, 2001). In effect, in this instance the M&A strategy may be inconsistent with country-specific characteristics, although it is possible that difficulties resulted from a lack of experience on the part of the Japanese acquirer. For example, two German firms also took a hands-off approach in their M&As as a substitute for R&D (Child *et al.*, 2001), yet were more successful than the Japanese acquisition was. By contrast, the tendency among US firms – such as Microsoft and Cisco Systems – is to assimilate the acquired firm, even if the firm is in a CME. These firms will, however, make exceptions to a full integration policy. For example, Cisco Systems is willing to pursue a hands-off policy with respect to certain practices if the systems of the acquired firm are superior to those of Cisco.

Values Assimilation in an M&A as a substitute for R&D can be challenging since the acquiring firm is likely to be more bureaucratic than the acquired firm, and because the values of the merging firms, while similar, can create negative effects. For example, Bower (2001) notes that smaller, entrepreneurial firms will probably feel constrained once acquired, no matter how much attention is paid to integration. Nevertheless, in general, firms involved in an M&A as a substitute for R&D may hold similar values irrespective of the countries in which the firms are headquartered, particularly in IT firms. This similarity in values reflects the importance of knowledge and ideas in the production process, to the extent that industry values reduce problems resulting from differences in country-specific values.

Discussion and conclusion

In this paper we develop a strategic fit framework to examine the strategies and contingencies of cross-border M&As. We do so by aligning the role of HRM cross-border M&As – in terms of resources, processes and values – to the M&A strategy that firms adopt, conditional on country-specific characteristics of acquiring and acquired firms. Confirmation of the usefulness of our framework comes from a variety of broad empirical studies.

Although we have supported our discussions of strategic fit and contextual contingencies with existing robust empirical studies, there are always exceptions to the rule and variations within countries (Whitley, 1999) and country types. In particular, although at a broad level practices such as pay-for-performance systems are common across market economy types, at a more refined level there are non-trivial differences that HRM has to manage. For example, Campbell (1999) notes that the compensation systems in the BP Amoco merger – which involved two firms in LMEs – had to be redesigned because they differed significantly. He also notes that other HRM processes were altered, such as the creation of a new job structure framework. Thus, even firms in countries within the same market economic type will experience some degree of localization in HRM practices and policies and therefore may need to adjust the role of HRM accordingly.

The M&As examined in this paper are representative of the majority of the largest mergers occurring in recent decades in the industrialized world, yet do not exhaust all such M&As. For example, large M&As are fairly common in what Hall and Soskice

(2001) call Mediterranean market economies (MMEs), such as France, Spain and Italy. MMEs can be seen as a hybrid between CMEs and LMEs, with financial policies being similar to those in LMEs and labour market policies similar to those in CMEs. Although we do not consider the MME case here, our strategic fit framework can adequately capture it. Hence, possibly reflecting the hybrid nature of MMEs, it has been shown that French firms tend to engage in partial integration of LME firms, with French mangers having a colonial attitude in their acquisitions of UK firms (Child *et al.*, 2001).

Our framework demonstrates that convergence among certain HRM practices to a best practice model was consistent with the strategic intent of the merger. However, further research is needed to consider why a number of other practices retained specific country characteristics and, perhaps more importantly, the effect that these unique factors had on the performance of an M&A. Our framework also sheds light on problems created in M&As, such as when certain types of M&A strategies are incompatible with country preferences for the degree and speed of merger integration. In addition, there are other contingencies, such as experience and size differences between acquiring and acquired firms, that would be interesting to consider further. For example, as firms in CMEs gain more experience in conducting M&As, it is an open question whether they will begin to assert their values and processes to a greater extent, stay on the same course or converge to LME systems.

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